

PUBLIC-PRIVATE PARTNERSHIP IN SHARIA-BASED MSMEs EMPOWERMENT IN INDONESIA

Dina¹, Iin Endah S², Diah Apriliani³, Tom Finaldin⁴

Al Ghifari University^{1,2,3,4}

Email: dina.shusein@gmail.com

Abstract

Empowerment of micro, small, and medium enterprises (MSMEs) based on Islamic economics is a crucial strategy for strengthening the national foundation economy and achieving sustainable development. This research review includes cooperation models between the government and the private sector (Public-Private Partnership/PPP) in optimizing empowering MSMEs through a Sharia economy approach. The latest data show that the implementation of PPP in the Sharia UMKM sector has experienced significant improvement, with growth in Sharia financing for MSMEs reaching 22.4% in 2023, while collaboration government-private in the Sharia UMKM empowerment program has reached more than 2.3 million business micro perpetrators. This research uses qualitative and analytical methodologies to see the effectiveness of the PPP model in creating a supportive ecosystem growth of Sharia-based MSMEs. Findings show that integration of sharia principles in the PPP model can increase access financing, development capacity, and market expansion for MSMEs. This collaborative model strengthens the micro economy's resilience and encourages financial inclusivity according to Sharia principles. This research is done to optimize the role of PPP in empowering Sharia MSMEs, focusing on three main pillars: strengthening Islamic finance infrastructure, developing human resource capacity, and digitalising MSMEs. Based on the Sustainable Partnership Framework, the research identifies five key success factors for PPP in the context of Islamic MSMEs: (1) harmony policy regulation, (2) innovation of sharia financing models, (3) transfer of knowledge and technology, (4) fair risk distribution, and (5) program sustainability. These research results are expected to contribute significantly to developing policies and practices that best empower MSMEs based on Islamic economics through cooperation between government and private sectors.

Keyword: *Public-Private Partnership, MSMEs, Sharia Economy*

A. INTRODUCTION

Empowerment of Micro, Small and Medium Enterprises (MSMEs) has a strategic role in supporting economic growth, especially in developing countries like Indonesia, as an economic sector that contributes 61% to the national GDP and absorbs 97% of the workforce. MSMEs need consistent support to overcome challenges like access to capitalization, market constraints, and technological adaptation (Rahman, 2023). In this context, an Islamic economics-based approach through collaboration between public and private sectors becomes an innovative solution for creating an inclusive and sustainable ecosystem (Harsanto et al., 2024). Previous research shows that implementation of the Public-Private Partnership (PPP) model is capable of increasing efficiency in the distribution of funds to MSMEs, particularly through Sharia-based mechanisms such as crowdfunding and microfinancing (Hassan et al., 2021; Hasan et al., 2020). In addition, digitalization in financial services significantly impacts the expansion of market access and efficiency of MSME operations (Hendrawan et al., 2024).

Government programs, such as Sharia Finance Acceleration, launched by the Ministry of Tourism and Creative Economy and KNEKS in 2023, provide assistance and access to funding based on crowdfunding securities for Sharia-based MSMEs (Bank Indonesia, 2021). Initiatives like this show commitment to collaboration between the government, private sector, and local community in encouraging MSMEs to move up a class (Mahyarni & Okfalisa, 2024). On the other hand, Bank Indonesia continues to strengthen support through sharia financing, which in 2021 reached IDR 75.07 trillion, most of which was intended for post-pandemic MSME recovery (Bank Indonesia, 2021). However, there needs to be more implementation of programs directed at technology innovation needs, like Smart Dashboard Sharia-based, for recommending appropriate financial solutions for MSMEs based on digitalization readiness (Iftikhar et al., 2024).

Table 1: Sharia Economic Programs for MSMEs in Indonesia 2023

Program Name	Initiator	Objective	Description
AKSES Program (Sharia Financial Acceleration)	Ministry of Tourism and Creative Economy, KNEKS, LBS	MSME financing and mentoring	Securities crowdfunding-based fundin g; mentoring until registration on the Sharia stock platform (Kompas, 2023).
ISEF (Indonesia Sharia Economic Festival)	Bank Indonesia	Promotion and development of sharia products	MSME competition and bazaar based on sharia, promoting hijrahpreneur entrepreneurship innovation (UK M Indonesia, 2023).
Business Matching	Government Goods and Services Procurement Policy Institution (LKPP)	Increase market access and business networks	We are connecting MSMEs with potential investors and buyers nationally and internationally (UKM Indonesia, 2023).
Fintech Syariah	Islamic Banking	Digital financial access for MSMEs	I am financing through Sharia-based digital platforms to expand financial inclusion (BI, 2022).
UMKM Go Online	Ministry of Cooperatives, Ministry of Communication and Information	MSME operational digitalization	Technology-based training and marketing to improve competitiveness in online markets (BI, 2022).

From the table above, the synergistic approach between the public and private sectors shows that the empowerment of MSMEs based on Islamic economics can overcome traditional limitations through innovative technology and finance. This research is expected to contribute to developing more inclusive and efficient policies.

B. RESEARCH METHODS

This study uses a qualitative approach, with case study analysis methods, to evaluate the effectiveness of the Public-Private Partnership (PPP) model in creating a supportive ecosystem for Sharia-based MSME growth (Creswell & Poth, 2016; Huberman & Miles, 2002). Data analysis techniques were used thematically, comparing interview, document, and observation results. The qualitative approach was chosen because it can deeply explore experience, perception, and interaction between the public sector, private sector and MSMEs in the implementation of the PPP model (Muhammed et al., 2021). Case study methods allow researchers to comprehensively analyze existing PPP programs, such as "ISEF" or "Business Matching", and identify challenges and successes.

Data collection techniques cover in-depth interviews with government representatives, private sector actors, and MSMEs and analysis of PPP program policy documents and reports. Data analysis techniques are carried out thematically, comparing results from interviews, documents, and observations and using triangulation to ensure data validity (Mahyarni et al., 2024). This research approach explores how the PPP model can impact the empowerment of MSMEs based on Islamic economics, where we can identify risk distribution and benefits as key success factors in the PPP model (Mohamad et al, 2023).

C. RESULTS AND DISCUSSION

This study aims to optimize the role of public-private partnership (PPP) in empowering Sharia-based MSMEs; the discussion results of the study refer to the Sustainable Partnership Framework (Muhammed et al., 2021). The research emphasizes the importance of five key factors in PPP success in the Sharia-based MSME sector. Innovative Sharia financing models, knowledge transfer, and more effective technology will speed up the transformation of MSMEs towards a more progressive Sharia ecosystem (Nasutatin et al., 2020 ; Rahman et al., 2021)

Regulatory Framework Development

Coordination between Islamic financial institutions and government agencies must be strengthened to create a more integrated and effective ecosystem. This aligns with the findings of Muhammed et al. (2021), who emphasize the importance of collaboration within Islamic social finance institutions (Muhammed et al., 2021) Implementing standardized Sharia-compliant procedures is essential to ensure adherence and consistency in Islamic finance practices (Hassan et al, 2021). This is key to building trust and operational clarity. Enhanced regulatory oversight mechanisms are necessary to ensure compliance and protection for all parties involved in the Sharia-based MSME ecosystem.

Financial Innovation

Developing new Sharia-compliant financial products is essential to meet the evolving needs of MSMEs (Rahman, 2023). According to (Rusydiana et al. 2021), this innovation is crucial to supporting the growth and recovery of MSMEs . The integration of digital payment systems is a key aspect of modernizing Sharia financial services. (Hasan et al. 2020) emphasize that fintech and Islamic finance must integrate to create more effective solutions. Implementing Sharia-compliant crowdfunding platforms offers alternative funding options for MSMEs that align with Islamic principles .

Technology Adoption

The digital transformation of MSME operations has become a fundamental necessity, especially in the face of global challenges . Taufik & Ayuningtyas (2020) highlight the importance of online platforms in supporting business sustainability [39]. Adopting e-commerce solutions helps MSMEs expand their market reach and enhance operational efficiency. Hassan et al. (2021) demonstrate that digital technology has helped MSMEs survive crises. Developing Islamic fintech platforms is a strategic step in modernizing Sharia financial services . Rusydiana et al. (2021) emphasize the importance of the Islamic fintech landscape in supporting the growth of the Islamic economy (harsanto et al, 2024).

Research Results

Based on data analysis from interviews with various stakeholders, including MSME actors in the public and private sectors, several important findings regarding PPP optimization in Sharia-based MSME empowerment were discovered. These findings are presented in Table 2.

Table 2: Analysis Results of Success, Findings, and Recommendations Based on Sharia Economic Pillars

Key Success Factors	Findings	Recommendations	Related Pillars	Data Sources
Regulatory Policy Alignment	Regulations supporting Sharia-based MSMEs remain fragmented	Government needs to strengthen inter-institutional coordination	Strengthening Sharia Financial Infrastructure	Interviews with Government and MSMEs
Sharia Financing Model Innovation	More flexible Sharia-based financing models are needed	Development of Sharia-based financing products with more options	Strengthening Sharia Financial Infrastructure	Data from Islamic financial institution reports
Knowledge and Technology Transfer	The private sector is crucial in technology transfer	Increase digital technology-based training programs	Human Resource Capacity Development	Training program reports
Fair Risk Sharing	Risk sharing between sectors is still unbalanced	Adopt more equitable risk-sharing mechanisms	Human Resource Capacity Development	PPP program observations
Program Sustainability	Sustainability needs strengthening	Implementation of systematic evaluation systems	MSME Digitalization	Stakeholder interviews

D. DISCUSSION

The discussion of the research findings refers to the Sustainable Partnership Framework Harsanto et al. (2024), which emphasizes the importance of five key factors in the success of PPP in the Islamic-based MSME sector. Innovative Islamic financing models Mahyarni and Okfalisa (2024) and more effective knowledge and technology transfer will accelerate the transformation of MSMEs toward a more advanced Islamic ecosystem (Hasan et al, 2020).

The research findings indicate that regulatory policy alignment is a key factor that needs improvement to ensure long-term success. Second, innovation in Islamic financing models. Third, more effective knowledge and technology transfer will speed up the transformation of MSMEs toward a more advanced Islamic ecosystem. Fourth, equitable risk-sharing between private and public parties is essential to avoid imbalances that could harm either party. Fifth, program sustainability needs attention through an improved evaluation system, ensuring that the PPP program focuses on short-term success and long-term achievement.

Table 3: Sharia Economic Programs Supporting PPP Success in Sharia-Based MSME Empowerment

Program Name	Initiator	Objective	Description
Program AKSES (Akselerasi Keuangan Syariah)	Ministry of Tourism and Creative Economy, KNEKS, LBS	Increase financing access	Helps MSMEs obtain Sharia-compliant financing
Indonesia Sharia Economic Festival (ISEF)	Bank Indonesia	Enhance entrepreneurship ecosystem	Promotional event for sharia products
Business Matching	LKPP	Connect MSMEs with markets	Improves competitiveness through networking
MSMEs Go Online	Ministry of Cooperatives and Information	Digital transformation	Improves product quality in digital markets

E. CONCLUSION

The study results have findings related to key factors for PPP's success in empowering Sharia-based MSMEs, including some implemented programs that contribute significantly to creating a supportive ecosystem for Sharia-based MSME growth in Indonesia. This research aims to study the contribution of the Sharia-based PPP model to the empowerment of MSMEs in Indonesia, focusing on efficiency, inclusivity and sustainability. This research program suggests that the government and private sector strengthen collaboration through more policy updates, harmony, and sustainable innovation to support the growth of Sharia-based MSMEs in Indonesia.

REFERENCES

- Abdullah, M., & Ismail, A. G. (2017). Taking stock of the waqf-based Islamic microfinance model. *International Journal of Social Economics*, 44(8), 1018-1031.
- Ahmad, M., & Leng, Y. (2020). The role of digital finance in strengthening Islamic microenterprises during global pandemic. *Journal of Islamic Finance*, 9(2), 87-102.
- Aerts, C., Sunyoto, T., Tediosi, F., & Sicuri, E. (2017). Are public-private partnerships the solution to tackle neglected tropical diseases? A systematic review of the literature. *Health Policy*, 121(7), 745-754.
- Apriliani, D. (2022). Paradiplomacy of West Java Province in the development of micro, small, and medium enterprises (MSMEs) in the international market. *Global Mind*, 4(1), 10-20.
- Bank Indonesia. (2021). Commercial Property Development - Quarter III 2021. https://www.bi.go.id/id/publikasi/laporan/Pages/PPKom_Triwulan_III_2021.aspx
- Billah, M. M. (2019). *Islamic Financial Products: Principles, Instruments and Structures*. Palgrave Macmillan.
- Creswell, J. W., & Poth, C. N. (2016). *Qualitative Inquiry and Research Design: Choosing Among Five Approaches*. Sage Publications.
- Dina, D. N. (2017). The role of the West Java DPRD in fighting for public interests. *Journal of Politics and Communication*, 5(1), Article 01.
- Dina, D. (2018). Evaluation of integrated Citarum water resources management investment program. *Academic Praja Journal of Political Science, Government, and Public Administration*, 1(1), 85-110.
- Elasrag, H. (2019). Blockchain for Islamic finance: Obstacles & challenges (MPRA Paper No. 92676).

- Financial Services Authority. (2020). OJK Annual Report. <https://www.ojk.go.id/id/data-dan-statistik/laporan-tahunan/Documents/Laporan%20Tahunan%20OJK2021.pdf>
- Gheeraert, L., & Weill, L. (2015). Does Islamic banking development favor macroeconomic efficiency? Evidence on the Islamic finance-growth nexus. *Economic Modelling*, 47, 32-39.
- Greve, C., & Hodge, G. (2010). Public-private partnerships and public governance challenges. *New Public Governance?*, 165-178.
- Harsanto, B., et al. (2024). Sustainable Halal Value Chain performance for MSMEs: The roles of digital technology, R&D, financing, and regulation as antecedents. *Cogent Business Management*, 11(1), Article 2397071.
- Hassan, M. K., & Aliyu, S. (2018). A contemporary survey of islamic banking literature. *Journal of Financial Stability*, 34, 12-43.
- Hassan, M. K., Rabbani, M. R., & Abdullah, Y. (2021). Socioeconomic impact of COVID-19 on MSME in Islamic financial services. *Islamic Economic Studies*, 29(2), 19-38.
- Hasan, R., Hassan, M. K., & Aliyu, S. (2020). Fintech and Islamic finance: Literature review and research agenda. *International Journal of Islamic Economics and Finance*, 3(1), 75-94.
- Hendrawan, S. A., et al. (2024). Digital transformation in MSMEs: Challenges and opportunities in technology management. *Journal of Information and Technology*, 141-149.
- Hodge, G. A., & Greve, C. (2007). Public-private partnerships: An international performance review. *Public Administration Review*, 67(3), 545-558.
- Hodge, G., & Greve, C. (2018). Contemporary public-private partnerships: Towards a global research agenda. *Financial Accountability & Management*, 34(1), 3-16.
- Huberman, M., & Miles, M. B. (2002). *The Qualitative Researcher's Companion*. Sage.
- Ibrahim, M. H. (2020). Islamic banking and finance: Innovation and resilience during crisis. *Journal of Islamic Monetary Economics and Finance*, 6(2), 213-236.
- Iftikhar, A., Ali, I., Arslan, A., & Tarba, S. (2024). Digital innovation, data analytics, and supply chain resiliency: A bibliometric-based systematic literature review. *Annals of Pass Research*, 333(2), 825-848.
- Isa, M. P. B. M., et al. (2021). Innovation of risk mitigation model for Islamic equity-based financing in Islamic microfinance institutions in Indonesia. In *SHS Web of Conferences* (p. 10004). EDP Sciences.
- Jan, A., et al. (2023). Islamic corporate sustainability practices index aligned with SDGs towards better financial performance: Evidence from the Malaysian and Indonesian Islamic banking industry. *Journal of Cleaner Production*, 405, Article 136860.
- Kassim, S. (2016). Islamic finance and economic growth: The Malaysian experience. *Global Finance Journal*, 30, 66-76.
- Mahyarni, M., & Okfalisa, O. (2024). SMEs digitalization readiness in supporting Sharia fintech: Framework development using quadruple perceptions in fuzzy analytical hierarchy process (FUZZY AHP). *Serbian Journal of Management*, 19(1), 71-97.
- Mohamad Shafi, R., & Tan, Y.-L. (2023). Evolution in Islamic capital market: A bibliometric analysis. *Journal of Islamic Accounting and Business Research*, 14(8), 1474-1495.
- Muhamed, N. A., Ramli, N. M., Shukor, S. A., & Kamaruddin, M. I. H. (2021). Comprehensive review of public-private partnership in Islamic social finance institutions. *International Journal of Islamic Economics and Finance*, 4(2), 171-202.
- Nasution, D. A. D., Erlina, & Muda, I. (2020). Dampak pandemi COVID-19 terhadap perekonomian Indonesia. *Jurnal Benefita*, 5(2), 212-224.

- Noordin, K. A. (2018). Digital marketplace and FinTech to support agriculture sustainability. *Enterprise Development and Microfinance*, 29(1), 26-44.
- Rahman, F. (2023). Technology Adoption in Islamic MSMEs. *International Journal of Islamic Digital Economy*, 4(2), 112-128.
- Rahman, M. P., & Duasa, J. (2021). Determinants of Malaysian SMEs' adoption of Islamic fintech services. *Journal of Islamic Marketing*. Advance online publication.
- Rusydiana, A. S., Marlina, L., & Rahayu, S. S. (2021). Islamic Fintech in Indonesia: Current landscape and strategic response. *Library Philosophy and Practice*, 1-17.
- Saad, M. A., & Hanif, M. (2019). Enhancing the competitiveness of Islamic banking through fintech integration. *Journal of Islamic Finance*, 8(2), 103-118.
- Sarif, S. M. (2019). Strategic Ta'awun And Fastabiqul Khairat Partnerships For Sustainable Competitive Advantage Among Small And Medium Enterprises In The Muslim World. *Asian Academy of Management Journal*, 24, 125-139.
- Shafi, M. (2023). Evolution in Islamic capital market: A bibliometric analysis. *Journal of Islamic Accounting and Business Research*, 14(8), 1474-1495.
- Suhaili, N. A., & Palil, M. R. (2020). Crowdfunding for Islamic social finance institutions. *International Journal of Islamic Economics and Finance*, 3(2), 95-115.
- Taufik, T., & Ayuningtyas, E. A. (2020). The impact of COVID-19 pandemic on business and online platform existence. *Jurnal Ekonomi Universitas Kadiri*, 5(1), 21-32.