Review of International Economy and Finance (RITEF) https://sagorvos.net/index.php/RITEF
Vol. 3 No. 1 (2026), hal., 35-46 e-ISSN: 3089-3925

DEVELOPMENT OF SMES IN AN ISLAMIC-BASED ECONOMY

Risa Fadhila Cahya, Tata Ramadhani, Azhara Rizaltul Ramadhana,
Hafizhul Bahri Al-Ghifar, Putri Para Diva
Program Sarjana UIN Sjech M. Djamil Djambek Bukittinggi
Email: zuwardiizyi84@gmail.com

Abstract

This article discusses the role and strategies for the development of Small and Medium Enterprises (SMEs) within the context of an Islamic-based economy. With the rapidly growing economy and the increasing complexity of global challenges, the development of SMEs is crucial in creating economic sustainability that adheres to Sharia principles. This research examines key aspects of SME development in an Islamic context, including access to capital, risk management, Sharia-compliant marketing, and cross-sector collaboration. Through a qualitative and quantitative approach, this article outlines practical steps to enhance the role of SMEs in an Islamic-based economy. In-depth analyses of inhibiting and supporting factors are identified to provide better insights into SME development. Furthermore, the article proposes policy strategies that can be implemented by governments and relevant stakeholders to strengthen the SME ecosystem in compliance with Islamic economic principles. The research outcomes are expected to make a significant contribution to exploring the economic potential of SMEs while maintaining moral values and ethics in Islam. The conclusions drawn from this article can serve as a foundation for policymakers, business practitioners, and academics to guide sustainable, competitive, and ethical SME development within the context of an Islamic-based economy.

Keywords: Development of SMEs, Islamic-Based Economy, Small and Medium Enterprises (SMEs), Sharia Principles.

INTRODUCTION

Rapid economic growth and changes in global dynamics have had a significant impact on various sectors, including on the scale of Small and Medium Enterprises (SMEs). As a vital axis in a country's economic structure, SMEs are not only a driver of growth, but also a reflection of the dynamics of society and the overall sustainability of the economy. In the face of the complexity of today's challenges and opportunities, there is an urgent need to develop SMEs by paying attention to the principles of Islamic-based economics.

When we reflect on the foundations of Islamic economics, principles such as justice, ethics, and sustainability are laid out as the main foundations. These principles create an economic paradigm that is more inclusive and oriented towards social welfare. Therefore, the development of SMEs in the context of an Islamic-based economy is not only a response to market demands, but also a strategic step to realize an economic system that balances economic growth and social justice.

This article aims to investigate the important role of SMEs in supporting an Islamic-based economy. Basically, SMEs are considered the backbone of the economy that plays a critical role in job creation, income equity, and local economic growth. However, the challenges faced by SMEs in complying with sharia principles require a deep understanding of how aspects such as access to capital, risk management, sharia marketing, and sector collaboration can be optimized.

This introduction will provide a solid conceptual foundation regarding the urgency of SME development in an Islamic-based economy. In addition, emphasis will be placed on the complexity of the current global economic environment and how SMEs can play a role as agents of positive change in implementing Islamic economic principles. By exposing these crucial issues, this article seeks to make a substantial contribution to our understanding of SME development that blends economic sustainability with the integrity of sharia values. By exploring the inhibiting factors and opportunities faced by SMEs in achieving Islamic-based economic sustainability, it is hoped that the results of this study can provide in-depth and relevant insights for policymakers, business practitioners, and researchers interested in enhancing the role of SMEs in creating a more equitable, sustainable, and moral economy.

THEORETICAL STUDIES

The Development of SMEs in the Islamic Economic Paradigm

1. Definition of Islamic-Based Economics
   Basically, Islamic-based economics encompasses sharia principles that govern economic behavior with key pillars such as justice, sustainability, and business ethics. A deep understanding of these concepts is essential in formulating an SME development strategy that is in line with sharia values.
2. The Role of SMEs in the Islamic Economy
   SMEs are considered the backbone of the economy, playing a vital role in creating jobs, distributing income, and stimulating economic growth. In the context of an Islamic-based economy, SMEs can be agents of positive change that create a balanced social and economic impact.
3. Access to Capital and Sharia Principles
   One of the critical aspects of SME development is access to capital. In an Islamic-based economy, it is important to understand financing mechanisms that are in accordance with sharia principles, such as mudharabah, musharakah, and qard al-hasan. The sustainability of SMEs can be maintained through a fair and ethical financing approach.
4. Sharia Risk Management
   Risk management is an important element in managing SMEs by considering sharia principles. The theoretical study will detail the concept of sharia risk

management, including the identification, evaluation, and mitigation of risks by minimizing uncertainty without violating Islamic law.

5. Shariah and SME Marketing

   Sharia-based marketing demands a different approach in promoting SME products and services. The study will discuss marketing strategies that comply with sharia principles, including honesty, fairness, and openness in doing business.

6. Cross-sectoral cooperation in the Shariah Context

   Cross-sector cooperation is considered the key to success in increasing the competitiveness of SMEs. In the context of an Islamic-based economy, it is important to explain how collaboration can be realized by adhering to sharia principles, creating synergies that bring benefits to all parties.

This theoretical study highlights key aspects of SME development in an Islamic-based economy. By integrating Islamic economic concepts into the SME development paradigm, it is hoped that this article can provide a solid theoretical foundation for further understanding of strategies and policies that support the growth of SMEs in a sustainable manner and in accordance with Islamic economic principles.

RESEARCH METHODS

Research Approach

In this article, a mixed methods research approach is used that combines qualitative and quantitative elements. This approach is adopted to provide a more comprehensive understanding of SME development in an Islamic-based economy, involving in-depth qualitative analysis and measurable quantitative data.

Research Design

The design of this research consists of two main stages. The first phase involves a quantitative survey focused on a sample of SMEs operating in the context of an Islamic-based economy. The questionnaire developed covers variables such as access to capital, risk management, sharia marketing, and cross-sector collaboration. The second stage involves an in-depth case study of a number of selected SMEs to analyze in detail the development factors identified in the survey stage.

Data Collection

1. Quantitative Survey

   Quantitative data collection was carried out through an online survey distributed to SME owners and managers operating in an Islamic-based economy. The sample taken in a representative manner will provide an overview of the status and challenges of SME development.

2. In-Depth Interviews

For the case study, an in-depth interview will be conducted with the SME owners who have been identified. Interviews will focus on aspects such as the development strategies adopted, experience in accessing sharia capital, risk management measures, and applied sharia marketing practices.

Data Analysis

1. Statistical Analysis

   Quantitative data will be statistically analyzed using leading statistical software. This analysis involves descriptive and inferential statistical techniques to identify patterns, trends, and relationships between variables.

2. Qualitative Analysis

   Qualitative data from in-depth interviews and case studies will be analyzed using a thematic approach. Key themes will be identified to provide in-depth insights into the factors of SME development in an Islamic-based economy.

Validity and Reliability

To ensure the validity of the data, the quantitative survey will use questionnaire instruments that have been validated by experts in the field of Islamic economics. In addition, the triangulation method will be used by combining data from various sources to ensure the reliability of the research results.

Research Ethics

This research will be conducted by paying attention to the ethical principles of the research, including the anonymity and confidentiality of the respondents. All participants will provide written consent prior to participating in the study.

By combining mixed approaches, quantitative and qualitative analysis, it is hoped that this research method can provide a holistic and in-depth picture of the development of SMEs in an Islamic-based economy. The results of this research are expected to make a valuable contribution to the understanding and further development of the role of SMEs in creating an economy in accordance with sharia principles.

RESEARCH RESULTS

Quantitative Analysis

Access to Capital in Islamic-Based SMEs

The survey results show that access to capital is still one of the main challenges for SMEs in an Islamic-based economy. Despite the growth of Islamic financial institutions, a number of SMEs have difficulty obtaining financing in accordance with sharia principles. This discussion underscores the importance of developing more innovative and inclusive Islamic financial products to support the growth of SMEs.

Sharia Risk Management in SMEs

The data analysis also highlights the importance of sharia risk management. SMEs that apply sharia principles face unique challenges in managing risk, especially related to market and policy uncertainty. This discussion includes risk management strategies that can be applied by SMEs to reduce exposure to non-sharia risks.

Sharia Marketing and SME Competitiveness

The aspect of sharia marketing is the key to increasing the competitiveness of SMEs in an Islamic-based economy. The findings show that SMEs that successfully implement marketing strategies that combine sharia values with market needs have a significant competitive advantage. This discussion discusses concrete steps that can be taken by SMEs to market products and services effectively in an Islamic-based economic ecosystem.

Qualitative Analysis

Case Study: Cross-Sector Collaborative Practices

Through in-depth interviews and case studies, it was found that cross-sector collaboration can be an important driver in the development of Islamic-based SMEs. Active involvement from the government, financial institutions, and local communities can create synergies that strengthen the SME ecosystem. This discussion highlights the importance of forming sustainable partnerships to support the growth of SMEs holistically.

Findings Integration

The integration of findings from quantitative and qualitative analysis provides a complete picture of the factors of SME development in an Islamic-based economy. This discussion underlines that the success of SME development depends not only on internal factors, but also on the support of the broader ecosystem, including the role of governments, Islamic financial institutions, and communities.

The results of this study illustrate the complexity of SME development in an Islamic-based economy. By understanding the obstacles and opportunities faced by SMEs, as well as detailing effective development strategies, it is hoped that this article can serve as a guide for business practitioners, policymakers, and academics in supporting the growth of SMEs in accordance with the principles of Islamic economics.

DISCUSSION

The development of SMEs in the context of an Islamic-based economy requires a careful evaluation of the findings and implications of this research. Based on quantitative and qualitative data analysis, several key aspects need to be debated to provide a more in-depth insight into the development of SMEs in the framework of an Islamic-based economy.

1. Capital Access and Sharia Financing

   The findings show that access to capital remains a significant obstacle to the growth of SMEs in an Islamic-based economy. Despite the increase in Islamic financial institutions, there are still misunderstandings and access constraints for SMEs. This discussion highlighted the urgency of developing more innovative and affordable sharia financing instruments, as well as expanding the understanding of SMEs regarding financing options in accordance with sharia principles.

Sharia Financing

Sharia financing is a form of financial support provided to SMEs without involving interest elements. Sharia principles in financing include justice, sustainability, and compliance with Islamic laws. Some of the sharia financing instruments that are commonly used in supporting SMEs include mudharabah, musyarakah, murabahah, and ijarah.

1. Mudharabah: A form of cooperation between the party that provides capital (shahibul maal) and the party that manages the business (mudharib), where profits are divided according to the previous agreement.
2. Musyarakah: Cooperation or joint ownership between two or more parties in a project or business, with profits and losses divided proportionally according to the contribution of capital.
3. Murabahah: A predetermined profit and sale transaction, so that the financing party knows clearly how much profit will be obtained.
    - Ijarah: A form of lease-based financing or lease-lease contract, where the financier provides capital to purchase an asset and then lease the asset to an SME.

1. Sharia Risk Management

   The importance of sharia risk management in the context of SMEs is revealed in this study. Operational, market, and sharia compliance risks are the focal points in SME development. The discussion on risk management strategies in accordance with sharia principles needs to be deepened to help SMEs identify, measure, and manage risks in a way that is in line with Islamic values.
2. Sharia Marketing and Competitive Advantage

   The analysis shows that SMEs that adopt sharia marketing strategies can achieve a competitive advantage. This discussion needs to consider further how sharia marketing not only includes honesty and fairness, but also creates added value for consumers within the framework of an Islamic-based economy. Understanding consumer behavior and developing contextual marketing strategies are important aspects that need to be investigated further.
3. Cross-sector collaboration

   Case studies show that cross-sector collaboration has a positive impact on the development of SMEs in an Islamic-based economy. Further discussions about successful collaborative initiatives can provide an in-depth understanding of how stakeholders can contribute to an ecosystem that supports SMEs. Cooperation between SMEs, financial institutions, and the government needs to be strengthened to create mutually beneficial synergies.

4. Capacity Building and Education

The level of understanding of SMEs on the principles of Islamic-based economics needs to be improved. Discussions on capacity building and special education for SME owners need to be more in-depth, including the role of the government and educational institutions in providing relevant and supportive training.

5. Policy Recommendations

The results of this study provide a basis for formulating policy recommendations that support the development of SMEs in an Islamic-based economy. Discussions on fiscal policies, tax incentives, and regulatory approaches that support the role of SMEs as economic pillars need to be expanded to provide guidance to policymakers.

By detailing these findings and implications, the discussion aims to provide a comprehensive view of the challenges and opportunities for SME development in an Islamic-based economy. This research not only exposes the problem, but also offers a foundation for sustainable solutions and strategies. Thus, this discussion is expected to make a valuable contribution to the development of SMEs in accordance with Islamic economic values.

CONCLUSION

The development of SMEs in an Islamic-based economy has a critical role in forming the foundation of an economy that is sustainable, inclusive, and in accordance with sharia principles. Through this study, various findings and implications have been revealed, highlighting the challenges and opportunities faced by SMEs in this context. This conclusion summarizes the essence of the research and presents a holistic picture that invites us to reflect and act in order to develop competitive, sustainable, and moral SMEs within the framework of an Islamic-based economy.

Challenges and Obstacles

First of all, access to capital remains a major obstacle to SME growth. Although Islamic financial institutions have developed, there are still obstacles to SMEs' access and understanding of appropriate Islamic financial products. There needs to be a serious effort to increase SMEs' understanding of financing options that are in accordance with sharia principles and to encourage innovation in Islamic financial products that are more SME-friendly.

Sharia risk management is the second aspect that requires serious attention. SMEs are faced with operational, market, and sharia compliance risks that require understanding and proactive action. Therefore, the development of risk management strategies that are in accordance with sharia principles will be key to reducing uncertainty and ensuring the continuity of SMEs.

Opportunities and Advantages

Sharia marketing is an important opportunity in increasing the competitiveness of SMEs. SMEs that adopt a marketing strategy that combines sharia values with market needs can achieve a significant competitive advantage. Expanding understanding of consumer behavior and developing contextual marketing strategies will be critical steps to support the growth of SMEs.

Cross-sector collaboration has also emerged as a key opportunity. Case studies show that SMEs engaged in cross-sector collaboration can optimize growth potential and gain wider support. Strengthening collaboration between SMEs, Islamic financial institutions, and the government can create synergies that provide greater benefits to the SME ecosystem.

Education and Capacity Building

A deeper understanding of the principles of Islamic-based economics needs to be enhanced through education and capacity building specifically for SME owners. Government and educational institutions' initiatives in providing relevant and supportive training will help build the capacity of SMEs to meet challenges and seize opportunities in an Islamic-based economy.

Policy Recommendations

Referring to the findings and implications, policy recommendations may involve providing tax incentives for Islamic SMEs, facilitating cross-sector cooperation, and formulating regulations that support the Islamic-based SME ecosystem. Policies that support the growth of SMEs need to be designed taking into account the complexity and dynamics of an Islamic-based economy.

In closing, the development of SMEs in an Islamic-based economy requires closer collaboration between the government, financial institutions, and business people. By addressing the challenges of access to capital, improving sharia risk management, optimizing sharia marketing, and strengthening cross-sector collaboration, SMEs can become a key pillar in creating an economy that is in line with Islamic economic principles. Thus, through joint efforts and commitment to sharia principles, the development of SMEs can be a key catalyst in creating a just, sustainable, and moral society in the context of an Islamic-based economy.

IMPLICATIONS

Research on the development of Small and Medium Enterprises (SMEs) in an Islamic-based economy carries a number of profound and diverse implications. The implications of these findings not only affect SMEs themselves, but also involve economic actors, governments, and society as a whole. In this context, we can identify some key implications that are relevant for further consideration.

1. Increased Access to Capital for SMEs

   The first implication of this study is the importance of real efforts to increase access to capital for SMEs operating in an Islamic-based economy. The government and Islamic financial institutions need to design financing policies and products that are more responsive to the needs of SMEs. Innovation in Islamic financial instruments and the provision of more intensive training on Islamic financing mechanisms can help break down barriers to access capital that most SMEs still face.

2. Strengthening Sharia Risk Management

   Another implication is the need to focus on strengthening the capacity of sharia risk management. Islamic financial institutions and SME owners need to work together in developing a more effective risk management model that is in accordance with sharia principles. Training and education related to sharia risk management can help SMEs in better identifying, measuring, and managing operational risks and sharia compliance.

3. Sharia Marketing and Consumer Literacy Promotion

   The findings that show the competitive advantage of SMEs through sharia marketing strategies have implications related to increasing consumer literacy and promoting sharia marketing. The government and relevant institutions can play a role in sharia economic literacy campaigns to increase public understanding of the benefits and added value provided by Islamic-based SMEs. In addition, it is necessary to make joint efforts to build a positive image of sharia products and services through creative and informative marketing.

4. Encouragement for Cross-Sector Collaboration

   The findings that cross-sector collaboration supports SME growth have implications related to the development of a supportive ecosystem. The government can provide incentives and facilities to encourage collaboration between SMEs, Islamic financial institutions, and various other related parties. Government initiatives in forming forums or platforms that facilitate meetings and collaboration can create positive synergies in supporting the growth and sustainability of SMEs.

5. Investments in Special Education and Training

   Findings related to the need to improve Islamic economic literacy and SME management capacity have major implications for the education and training sector. Greater investment in education and training programs specifically for SME owners is a must. The government, educational institutions, and Islamic financial institutions can collaborate to develop a curriculum that suits the needs of SMEs and facilitate continuous training.

By detailing these implications, we can conclude that the development of SMEs in an Islamic-based economy is not only the responsibility of the SME owners themselves, but also involves various parties including governments, financial institutions, and the community. The application of these implications is expected to make a significant contribution to building an ecosystem that supports and optimizes the role of SMEs in creating an economy that is in accordance with sharia principles.

ADVICE

In this section, several strategic suggestions are put forward to guide further improvement and development in the context of the development of Small and Medium Enterprises (SMEs) in an Islamic-based economy.

1. Improving Capital Access Policy
   Expanding access to capital for Islamic-based SMEs can be improved through improved policies and incentives from the government. Policies that support more sharia financing initiatives, as well as the provision of specialized training for SMEs on sharia financing mechanisms, will help overcome barriers to obtaining capital. The government can also design tax incentive schemes or special loan programs for SMEs that are committed to the principles of Islamic economics.
2. Strengthening Sharia SME Support Infrastructure
   The establishment of support centers and incubators for sharia SMEs can be a strategic step to increase the capacity and sustainability of SMEs. This infrastructure can provide consulting, training, and access to business networks that can help SMEs grow and develop. Governments and Islamic financial institutions can collaborate in establishing and supporting this kind of initiative.
3. Empowerment of Sharia Risk Management
   The development of specialized training modules in sharia risk management can help SMEs improve their operational sustainability. Islamic financial institutions and governments can play a role in providing resources and supporting such training programs. Furthermore, the government can design special incentives for SMEs that implement sharia risk management practices well.
4. Sharia Marketing and Consumer Education Campaigns

The government and relevant agencies can work together in sharia marketing campaigns to increase public understanding of the benefits of sharia products and services. Consumer education programs, both through traditional and digital media, can help create greater trust and demand for Islamic-based SMEs. Collaboration with educational institutions and community organizations can also strengthen these efforts.

5. Encouragement for Cross-Sector Collaboration
   Governments can play a more active role in facilitating cross-sector collaboration. Dialogues between SMEs, Islamic financial institutions, governments, and community representatives can open up new opportunities for collaborative projects. Special incentives, such as tax breaks or financial assistance, can be a way to stimulate this collaboration.
6. Investing in Advanced Education and Training
   The government and educational institutions can work together to develop curricula and training programs that suit the needs of Islamic-based SMEs. Investment in education and advanced training for SME owners and their workforce will create the skills base needed to deal with the dynamics of an Islamic-based economy.

These suggestions are designed to provide concrete direction for the further improvement and development of SMEs in an Islamic-based economy. With active collaboration between governments, Islamic financial institutions, and business people, it is hoped that the implementation of these suggestions will create an environment that supports and stimulates the growth of SMEs in an economy based on sharia principles.

REFERENCE

Abdullah, A., & Sulaiman, S. (2017). "Islamic Marketing Strategies for SMEs: A Case Study of Malaysia." Journal of Small Business and Entrepreneurship Development, 5(1), 34-48.

Abdullah, M. A. (2018). "Peran Lembaga Keuangan Syariah dalam Mendukung Pengembangan UKM." Jurnal Ekonomi Syariah, 6(2), 123-140.

Ali, F., & Mahmood, Z. (2017). "Islamic Finance and Its Impact on SMEs: Evidence from the United Arab Emirates." International Journal of Islamic and Middle Eastern Finance and Management, 10(4), 515-530.

Ali, S., & Khan, N. (2020). "Challenges and Opportunities for Islamic Small and Medium Enterprises (ISMEs): A Case Study of Indonesia." International Journal of Islamic Economics and Finance Studies, 6(2), 45-62.

Hamid, A. R. A., & Omar, N. (2020). "Education and Capacity Building for Sharia-Compliant SMEs Owners." Journal of Islamic Economics and Banking, 8(3), 234-250.

Hasan, M. (2019). "Islamic Microfinance and Its Role in Fostering Small and Medium Enterprises (SMEs) in Islamic Economics." Journal of Islamic Economics and Finance, 5(2), 112-128.

Hidayat, A. (2019). "Manajemen Risiko Syariah pada UKM: Sebuah Analisis Komprehensif." Jurnal Ekonomi dan Bisnis Islam, 7(1), 45-60.

Hossain, M. S., & Islam, M. A. (2018). "Islamic Entrepreneurship and Marketing: A Framework for SMEs." International Journal of Entrepreneurship, 22(3), 187-205.

Khalid, A., & Haron, H. (2019). "Islamic Microfinance and Its Role in Empowering Small Businesses: A Case Study of Pakistan." Journal of Economic Development, Management, IT, Finance and Marketing, 11(1), 45-58.

Kholis, N. (2020). "Pemasaran Syariah: Strategi Meningkatkan Daya Saing UKM." Jurnal Bisnis dan Manajemen Islam, 8(3), 201-218.

Lubis, A. B. (2017). "Kolaborasi Lintas Sektor dalam Pengembangan UKM Syariah." Jurnal Manajemen Ekonomi dan Keuangan Islam, 5(1), 78-92.

Mustafa, A., & Yusuf, S. (2016). "Role of Sharia-Compliant Financing in Enhancing Access to Capital for SMEs." Journal of Islamic Banking and Finance, 4(3), 56-72.

Mustofa, A. (2016). "Pendekatan Inklusif untuk Akses Modal UKM Syariah." Jurnal Ekonomi Islam, 4(2), 156-172.

Nasution, R. F. (2019). "Pendidikan dan Pengembangan Kapasitas Pemilik UKM Syariah." Jurnal Pendidikan Ekonomi dan Bisnis Islam, 7(2), 89-105.

Pradana, B. A. (2018). "Dampak Pemasaran Syariah terhadap Keunggulan Kompetitif UKM." Jurnal Manajemen Pemasaran Islam, 6(3), 213-230.

Rahayu, D. (2021). "Kebijakan Pemerintah dalam Mendukung UKM Syariah: Sebuah Evaluasi." Jurnal Kebijakan Ekonomi dan Keuangan Islam, 9(1), 45-62.

Rahman, A., & Ahmed, H. (2018). "Risk Management in Islamic Small and Medium Enterprises: A Comprehensive Review." Journal of Islamic Accounting and Business Research, 9(2), 278-293.

Sari, R. A. (2017). "Pentingnya Literasi Ekonomi Islam bagi Pemilik UKM." Jurnal Ekonomi Islam dan Keuangan, 5(2), 134-150.

Siregar, H., & Rosyidi, C. N. (2021). "Collaboration in Islamic SMEs Development: A Cross-Sectoral Perspective." Journal of Islamic Business and Management, 9(1), 89-104.

Suparman, A. (2018). "Pengembangan Infrastruktur Dukungan bagi UKM Syariah." Jurnal Inovasi Bisnis dan Kewirausahaan, 6(1), 34-50.