

## LEGAL PROTECTION FOR SHARIA-BASED MSMEs IN THE DIGITAL ECONOMY SYSTEM

PERLINDUNGAN HUKUM TERHADAP PELAKU UMKM BERBASIS SYARIAH  
DALAM SISTEM EKONOMI DIGITAL

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### ABSTRACT

This research aims to analyze the legal protection framework for Sharia-based Micro, Small, and Medium Enterprises (MSMEs) in Indonesia's digital economy system. Using a normative juridical approach with qualitative descriptive analysis methods, the research examines existing regulations, legal challenges faced, and the need for legal protection for Sharia MSME actors in digital transactions. Data was collected through literature studies, interviews with stakeholders, and analysis of policy documents. The results show that the existing legal framework does not comprehensively accommodate the specific needs of Sharia-based MSMEs in the digital economy, particularly regarding Sharia compliance, data protection, dispute resolution, and access to digital financing. This research recommends developing more inclusive regulations responsive to Sharia principles, strengthening digital literacy among MSME actors, and harmonizing positive law with Islamic economic principles to address the challenges of the digital economy.

**Keywords:** legal protection, Sharia MSMEs, digital economy, Sharia compliance, fintech regulation

### ABSTRAK

Penelitian ini bertujuan untuk menganalisis kerangka perlindungan hukum bagi pelaku Usaha Mikro, Kecil, dan Menengah (UMKM) berbasis syariah dalam sistem ekonomi digital di Indonesia. Menggunakan pendekatan yuridis normatif dengan metode analisis deskriptif kualitatif, penelitian mengkaji regulasi yang ada, tantangan hukum yang dihadapi, dan kebutuhan perlindungan hukum bagi pelaku UMKM syariah dalam transaksi digital. Data dikumpulkan melalui studi pustaka, wawancara dengan pemangku kepentingan, dan analisis dokumen kebijakan. Hasil penelitian menunjukkan bahwa kerangka hukum yang ada belum secara komprehensif mengakomodasi kebutuhan khusus UMKM berbasis syariah dalam ekonomi digital, terutama terkait kepatuhan syariah, perlindungan data, penyelesaian sengketa, dan akses terhadap pembiayaan digital. Penelitian ini

*merekomendasikan pengembangan regulasi yang lebih inklusif dan responsif terhadap prinsip syariah, penguatan literasi digital pelaku UMKM, serta harmonisasi antara hukum positif dengan prinsip ekonomi syariah dalam menghadapi tantangan ekonomi digital.*

*Kata kunci: perlindungan hukum, UMKM syariah, ekonomi digital, kepatuhan syariah, regulasi fintech*

## A. INTRODUCTION

The digital transformation of the global economy has created unprecedented opportunities and challenges for Micro, Small, and Medium Enterprises (MSMEs), particularly those operating based on Sharia principles. In Indonesia, as the country with the largest Muslim population in the world, Sharia-based MSMEs represent a significant segment of the economy that combines religious values with entrepreneurial activities. The integration of these businesses into the digital ecosystem raises complex legal questions regarding the protection of their rights, obligations, and unique operational requirements within a framework that respects both conventional legal systems and Islamic principles of commerce (*muamalah*).

The rapid growth of digital platforms, e-commerce, and financial technology (*fintech*) has revolutionized how businesses operate, creating new markets and modes of transaction. According to the Indonesian Ministry of Cooperatives and SMEs, as of 2024, approximately 19.5 million MSMEs have entered the digital ecosystem, with around 25% of them identifying as Sharia-based businesses (Ministry of Cooperatives and SMEs, 2023). This digital shift has been accelerated by the COVID-19 pandemic, which forced many traditional businesses to adapt to online models for survival. However, this transition has occurred faster than the development of appropriate legal frameworks to protect these businesses, particularly those with specific Sharia requirements.

Sharia-based MSMEs face unique challenges in the digital economy, including ensuring that their online transactions comply with Islamic principles prohibiting *riba* (interest), *gharar* (excessive uncertainty), and *maysir* (gambling-like speculation). *Fatwa* (religious edicts) issued by the National Sharia Board of the Indonesian Ulema Council provide guidance on various aspects of digital transactions, but their integration into the broader legal framework remains incomplete. As noted by Lahsasna (2020), the gap between Sharia governance and conventional legal systems creates vulnerabilities for businesses attempting to maintain religious compliance while participating in the digital economy.

The Indonesian government has implemented various policies to support MSMEs, including the MSME Law No. 20 of 2008, Government Regulation No. 7 of 2021 on Ease of Protection and Empowerment of MSMEs, and more recently, the Job Creation Law (Omnibus Law) of 2020. However, these regulations do not specifically address the unique needs of Sharia-based MSMEs in the digital environment. According to Lindsey (2021), this regulatory gap creates uncertainty for Sharia-compliant businesses, potentially hindering their growth and competitiveness in the digital marketplace.

The issue of data protection presents another significant challenge for Sharia-based MSMEs in the digital economy. The Personal Data Protection Law, enacted in 2022, establishes general principles for data protection but does not address specific considerations related to Sharia principles, such as the concept of *amanah* (trustworthiness) in handling customer information. Hassan (2019) argues that data protection for Sharia-based businesses should incorporate Islamic ethical principles regarding privacy and trust, beyond mere compliance with secular legal requirements.

Access to Sharia-compliant digital financial services represents a critical area requiring legal protection. While conventional fintech platforms have proliferated, offering various credit and payment solutions, Sharia-compliant alternatives remain limited. The Financial Services Authority (OJK) has issued regulations on fintech lending and digital banking, but specific provisions for Sharia-compliant services are still evolving. Zulkhibri (2018) emphasizes that comprehensive legal protection for Sharia-based MSMEs must include access to financial services that align with their religious values and operational needs.

Intellectual property protection in the digital space presents unique challenges for Sharia-based MSMEs, particularly those selling cultural or religious products. Traditional knowledge and cultural expressions often form the basis of their business models, but existing intellectual property laws may not adequately protect these assets in the digital realm. Azmi (2020) highlights the need for legal frameworks that recognize the collective nature of certain forms of knowledge within Islamic communities and provide appropriate protection mechanisms.

The issue of dispute resolution for Sharia-based MSMEs in digital transactions also requires attention. Conventional court systems may not be equipped to address disputes involving Islamic

contractual principles, while traditional Islamic dispute resolution mechanisms (such as tahkim or arbitration) may lack enforceability in the digital context. According to Oseni (2022), there is a need for hybrid dispute resolution systems that combine elements of both conventional and Islamic approaches, backed by appropriate legal recognition.

Consumer protection also emerges as a critical area for Sharia-based MSMEs in the digital economy. These businesses must navigate both secular consumer protection laws and Sharia principles regarding fair dealing and product quality. As Ramli (2019) notes, Sharia compliance in business operations extends beyond avoiding prohibited activities to encompass positive obligations regarding truthfulness in marketing, fair pricing, and product safety, all of which require appropriate legal frameworks in the digital context.

Given these multifaceted challenges, this research aims to analyze the current state of legal protection for Sharia-based MSMEs in Indonesia's digital economy and identify areas where regulatory reforms are needed. By examining the intersection of Islamic commercial principles, digital economy regulations, and MSME development policies, this study seeks to contribute to the development of a more comprehensive and inclusive legal framework that supports the growth of Sharia-based MSMEs in the digital age.

## **B. LITERATURE REVIEW**

Sharia-based MSMEs operate according to Islamic principles that govern commercial transactions (muamalat), distinguishing them from conventional businesses in several key aspects. According to Iqbal and Mirakhori (2017), Sharia compliance in business operations encompasses several fundamental principles: prohibition of interest (riba), avoidance of excessive uncertainty (gharar), prohibition of gambling-like speculation (maysir), and the requirement for transactions to be based on real economic activities rather than purely financial speculation. These principles shape how Sharia-based MSMEs conduct their operations, affecting everything from product development to financing arrangements and marketing strategies.

The integration of Sharia-based MSMEs into the digital economy presents both opportunities and challenges. Kassim (2020) notes that digital platforms can potentially expand the market reach of these businesses while reducing operational costs, but they also introduce new complexities regarding Sharia compliance in virtual transactions. For example, digital payment systems often involve

interest-bearing accounts or delayed settlement mechanisms that could potentially conflict with the prohibition of *riba*. Similarly, certain online marketing practices, such as clickbait advertising or misleading product descriptions, may violate Islamic principles of honesty and transparency in business dealings.

Data from the Association of Indonesian Sharia Fintech (AFSI) indicates that the number of Sharia-based MSMEs utilizing digital platforms increased by 45% between 2021 and 2023, reflecting growing acceptance of digital technologies among these businesses (AFSI, 2023). However, this digital transition has occurred without comprehensive legal frameworks specifically designed to address the unique characteristics and needs of Sharia-based enterprises. Hasan (2021) argues that existing digital economy regulations tend to be designed with conventional business models in mind, creating potential conflicts for businesses attempting to maintain strict adherence to Islamic principles while participating in the digital marketplace.

Research by Abdul-Rahman (2018) identifies several areas where Sharia-based MSMEs in the digital economy require specific legal protection: ensuring the validity of digital contracts according to Islamic principles, protecting intellectual property rights within an Islamic framework, providing access to Sharia-compliant financing through digital platforms, and establishing appropriate dispute resolution mechanisms for conflicts arising from online transactions. These areas represent the intersection of traditional Islamic commercial jurisprudence with modern digital commerce practices, highlighting the need for innovative legal approaches that respect both religious values and technological realities.

Indonesia's legal framework for the digital economy has evolved significantly in recent years, reflecting the government's recognition of the importance of digital transformation for economic growth. The Electronic Information and Transactions Law (UU ITE) No. 11 of 2008 (amended by Law No. 19 of 2016) serves as the primary legislation governing digital transactions, establishing general principles for the validity of electronic contracts and digital signatures. According to Soemarno (2020), while this law provides a basic foundation for digital commerce, it lacks specific provisions addressing the unique characteristics of Sharia-based transactions, such as the prohibition of interest and the requirement for transactions to be free from excessive uncertainty.

The Financial Services Authority (OJK) has issued several regulations governing digital financial services, including OJK Regulation No. 77/POJK.01/2016 on Technology-Based Lending Services

(P2P Lending) and OJK Regulation No. 13/POJK.02/2018 on Digital Financial Innovation. These regulations establish licensing requirements, risk management standards, and consumer protection mechanisms for fintech providers. However, as noted by Rusydiana (2019), these regulations do not comprehensively address the specific requirements of Sharia-compliant digital financial services, such as the prohibition of interest-based lending and the need for underlying real economic transactions.

The enactment of the Personal Data Protection Law in 2022 represents a significant development in Indonesia's digital economy legal framework, establishing principles for data collection, processing, and protection. This law adopts elements from international data protection standards, including the European Union's General Data Protection Regulation (GDPR). However, Ibrahim (2022) argues that the law does not explicitly address data protection issues from an Islamic perspective, such as the concept of privacy as a moral right and the obligation of trustworthiness (*amanah*) in handling personal information. This gap in the regulatory framework could potentially create challenges for Sharia-based MSMEs seeking to ensure that their data management practices comply with both secular law and Islamic principles.

The Job Creation Law (Omnibus Law) of 2020 introduced significant reforms aimed at simplifying business licensing procedures and creating a more favorable environment for MSMEs. According to Khatimah (2021), while these reforms offer potential benefits for all MSMEs, including Sharia-based ones, the law does not specifically address the unique challenges faced by businesses operating under Islamic principles in the digital economy. This regulatory gap underscores the need for a more nuanced approach to legal protection that recognizes the diversity of business models within Indonesia's MSME sector and provides appropriate support mechanisms for Sharia-based enterprises navigating the digital transition.

Legal protection for Sharia-based MSMEs in the digital economy encompasses various mechanisms designed to safeguard their rights and interests while ensuring compliance with Islamic principles. According to Laldin and Furqani (2018), effective protection requires a comprehensive approach that addresses both procedural and substantive aspects of business operations. Procedural protection includes access to justice through appropriate dispute resolution mechanisms, representation in regulatory decision-making processes, and procedural fairness in administrative actions. Substantive protection encompasses the recognition of Sharia-compliant contracts, protection against unfair trade practices, and the estab-

lishment of standards for digital transactions that align with Islamic principles.

Certification and standardization mechanisms represent important tools for protecting Sharia-based MSMEs in the digital economy. The National Sharia Board (DSN-MUI) in Indonesia issues certifications for Sharia-compliant products and services, providing a form of quality assurance for businesses operating according to Islamic principles. However, Nasution (2020) notes that the existing certification system primarily focuses on financial products and does not comprehensively cover digital business operations, creating potential gaps in protection for Sharia-based MSMEs engaged in e-commerce, digital marketing, or online service provision.

Alternative dispute resolution (ADR) mechanisms adapted to accommodate Islamic principles offer another important protection tool for Sharia-based MSMEs. Traditional Islamic dispute resolution methods such as *sulh* (mediation), *tahkim* (arbitration), and *fatwa* (expert determination) can be integrated into modern digital dispute resolution systems. Oseni (2022) emphasizes the potential of online dispute resolution (ODR) platforms that incorporate Islamic principles, allowing Sharia-based MSMEs to resolve conflicts arising from digital transactions in a manner consistent with their religious values. However, the development of such specialized platforms remains limited, highlighting an area where further legal innovation is needed.

Capacity building and literacy programs represent another dimension of protection for Sharia-based MSMEs in the digital economy. Regulatory knowledge and digital literacy are essential for these businesses to navigate complex legal requirements while maintaining Sharia compliance. According to Abdullah (2021), effective legal protection requires not only the establishment of appropriate regulations but also ensuring that MSME operators understand their rights, obligations, and available protection mechanisms. This educational dimension of protection is particularly important for smaller businesses with limited resources for legal compliance and risk management.

### **C. METHOD**

This study employs a normative juridical approach to analyze the legal protection framework for Sharia-based MSMEs in Indonesia's digital economy. According to Soekanto and Mamudji (2019), the normative juridical approach focuses on examining legal princi-

ples, legal systematics, and the synchronization of laws and regulations. This approach is appropriate for this research as it enables a comprehensive analysis of existing legal frameworks and their adequacy in addressing the unique needs of Sharia-based MSMEs in the digital environment. The research design incorporates both doctrinal analysis of legal texts and empirical assessment of their implementation and effectiveness.

The study utilizes qualitative descriptive analysis to interpret legal materials and stakeholder perspectives regarding the protection of Sharia-based MSMEs. As noted by Creswell and Poth (2018), qualitative research is particularly suitable for exploring complex phenomena that involve multiple variables and contextual factors. This approach allows for in-depth examination of the intersection between legal frameworks, Islamic commercial principles, and digital economy dynamics, providing insights that might be overlooked in quantitative analyses. The descriptive component of the analysis focuses on identifying gaps in existing legal protection and potential areas for regulatory reform.

Data for this research was collected through three primary methods: literature review, document analysis, and semi-structured interviews. The literature review encompasses academic journals, books, conference proceedings, and research reports related to Islamic commercial law, digital economy regulations, MSME development, and legal protection mechanisms. This comprehensive review provides theoretical foundations and identifies key concepts and debates in the field. Document analysis focuses on primary legal sources, including laws, regulations, court decisions, and policy documents related to the digital economy and Sharia-based businesses in Indonesia. According to Bowen (2017), document analysis offers several advantages for legal research, including cost-effectiveness, lack of obtrusiveness and reactivity, and the ability to track changes and developments over time.

Semi-structured interviews were conducted with key stakeholders involved in the regulation and operation of Sharia-based MSMEs in the digital economy. Participants included representatives from regulatory bodies (Financial Services Authority and Ministry of Cooperatives and SMEs), Sharia business associations, Islamic scholars specializing in commercial transactions (muamalat), digital platform operators, and owners of Sharia-based MSMEs. This diverse sample provided multiple perspectives on the research question, allowing for triangulation of data and more robust findings.

As noted by Miles and Huberman (2020), qualitative interviewing provides access to the context of people's behavior and thereby provides a way for researchers to understand the meaning of that behavior. The interview protocol focused on identifying challenges faced by Sharia-based MSMEs in the digital economy, evaluating the adequacy of existing legal protection, and exploring potential regulatory reforms.

The collected data was analyzed using thematic analysis, a method for identifying, analyzing, and reporting patterns within qualitative data. Following the approach outlined by Braun and Clarke (2021), the analysis process involved six phases: familiarization with the data, generating initial codes, searching for themes, reviewing themes, defining and naming themes, and producing the final analysis. This systematic approach ensured that the analysis was rigorous and grounded in the data while allowing for the emergence of insights that might not have been anticipated at the outset of the research.

The analysis focused on four key dimensions of legal protection for Sharia-based MSMEs in the digital economy: regulatory frameworks, compliance mechanisms, dispute resolution systems, and capacity building initiatives. For each dimension, the analysis assessed the current state of protection, identified gaps and challenges, and evaluated potential reforms. The findings were interpreted within the broader context of Indonesia's economic development goals, Islamic commercial principles, and global digital economy trends. The analysis also considered the practical implications of various legal protection mechanisms for different types of Sharia-based MSMEs, recognizing the diversity within this sector in terms of size, industry, and digital maturity. As Patton (2019) suggests, this contextualized approach to qualitative analysis enhances the relevance and applicability of research findings for policymakers and practitioners.

## **D. RESULT AND DISCUSSION**

### **Current Legal Framework and Its Limitations**

The existing legal framework governing Sharia-based MSMEs in Indonesia's digital economy consists of a complex mosaic of regulations from various sources. At the constitutional level, Article 33 of the Indonesian Constitution establishes the foundation for an economic system based on family principles and cooperation, which aligns with many Islamic economic principles. The MSME Law No.

20 of 2008 provides general protection for small businesses, including provisions for financing, capacity building, and market access. However, analysis of these regulations reveals limited explicit recognition of the specific needs and characteristics of Sharia-based businesses in the digital environment.

The Electronic Information and Transactions Law (UU ITE) No. 11 of 2008 (amended in 2016) establishes the legal basis for electronic transactions, including provisions on digital signatures, electronic contracts, and domain name protection. While this law provides important protections for all businesses operating in the digital space, stakeholders interviewed for this research highlighted several limitations from a Sharia compliance perspective. A representative from the Indonesian Sharia Fintech Association noted, "The UU ITE establishes the validity of electronic contracts but does not address issues like the prohibition of interest or the requirement for underlying real assets in transactions, which are fundamental for Sharia-based businesses."

Financial sector regulations present similar challenges. OJK Regulation No. 77/POJK.01/2016 on Technology-Based Lending Services and OJK Regulation No. 13/POJK.02/2018 on Digital Financial Innovation establish the regulatory framework for fintech platforms in Indonesia. While these regulations include specific provisions for Sharia-compliant fintech (labeled as "Fintech Syariah"), several interviewees noted that these provisions focus primarily on prohibition aspects (such as avoiding interest) rather than providing comprehensive guidance for positive compliance with Islamic commercial principles. An owner of a small Sharia-based online retail business commented, "The regulations tell us what not to do, but provide limited guidance on how to structure digital transactions in a manner that fully complies with Islamic principles."

The Personal Data Protection Law of 2022 represents a significant development in Indonesia's digital economy legal framework, establishing comprehensive principles for data protection. However, document analysis reveals that this law does not explicitly address data protection from an Islamic perspective, such as the concept of *amanah* (trustworthiness) in handling customer information. An Islamic scholar specializing in digital transactions observed, "From an Islamic perspective, protecting customer data is not just about compliance with secular regulations but fulfilling a moral obligation of trustworthiness. The current legal framework does not fully capture this dimension."

Intellectual property protection for Sharia-based MSMEs in the digital economy also presents challenges. Indonesia's Copyright Law No. 28 of 2014 and Trademark Law No. 20 of 2016 provide general protection for intellectual property rights but do not specifically address issues unique to Islamic businesses, such as the protection of traditional knowledge related to Islamic medicine or design elements with religious significance. A representative from a Sharia business association commented, "Many of our members create products based on Islamic art or traditional knowledge, but struggle to protect these assets in the digital marketplace under existing intellectual property laws."

### **Sharia Compliance Challenges in Digital Transactions**

Ensuring Sharia compliance in digital transactions presents significant challenges for MSMEs operating according to Islamic principles. The research identified several key areas where these challenges are particularly acute: payment systems, marketing practices, product verification, and contract formation. Digital payment systems represent a fundamental component of e-commerce, but many conventional payment gateways involve interest-bearing accounts or delayed settlement mechanisms that could potentially conflict with the prohibition of *riba*. An owner of a Sharia-based food delivery service explained, "We want to offer convenient payment options to our customers, but many payment gateways charge interest on delayed settlements or use interest-bearing accounts for float management, creating compliance challenges for us."

Digital marketing practices also present Sharia compliance challenges. Islamic commercial principles emphasize honesty and transparency in marketing, prohibiting exaggeration or misleading claims about products or services. However, common digital marketing tactics such as clickbait advertising, limited-time offers creating artificial scarcity, or algorithms that manipulate consumer behavior may conflict with these principles. A representative from the National Sharia Board noted, "In the digital economy, marketing techniques have become increasingly sophisticated and potentially manipulative. Sharia-based businesses need clear guidelines on what marketing practices align with Islamic principles of honesty and transparency."

Product verification in e-commerce presents another challenge for Sharia-based MSMEs. Islamic dietary restrictions (*halal*) and ethical considerations extend beyond food to include pharmaceuti-

cals, cosmetics, clothing, and other products. In physical markets, customers can directly inspect products and verify their compliance with Islamic requirements. In digital marketplaces, however, this verification becomes more difficult, requiring trusted certification systems and transparent product information. An MSME owner selling Sharia-compliant cosmetics online commented, "Our customers need assurance that our products meet Islamic requirements, but existing digital platforms don't always provide adequate space or verification mechanisms for halal certification."

Contract formation in digital transactions also raises Sharia compliance issues. Islamic commercial law includes specific requirements for valid contracts, including clarity of terms, mutual consent, and the absence of prohibited elements such as interest or excessive uncertainty. The instantaneous nature of many digital transactions, often completed with a single click, may not always satisfy these requirements. An Islamic legal scholar interviewed for this research explained, "Traditional Islamic contract law developed in a context where parties had direct communication and clear agreement on all terms. Digital contracts with lengthy terms of service that users rarely read present challenges from a Sharia compliance perspective."

### **Dispute Resolution Mechanisms for Sharia-Based MSMEs**

Effective dispute resolution mechanisms are essential for protecting the rights of Sharia-based MSMEs in the digital economy. The research identified several existing dispute resolution options available to these businesses, each with its advantages and limitations. Conventional courts provide the most authoritative form of dispute resolution, with the power to issue binding decisions enforceable by state authority. However, stakeholders interviewed for this research highlighted significant limitations of the conventional court system for Sharia-based businesses. A representative from a Sharia business association noted, "Conventional courts may not fully understand or apply Islamic commercial principles when resolving disputes involving Sharia-based businesses. The process is also typically slow and expensive, creating barriers for smaller businesses."

The Religious Courts (Pengadilan Agama) in Indonesia have jurisdiction over certain Islamic commercial disputes, particularly those related to Islamic banking and finance. However, their jurisdiction over digital commerce disputes remains limited and unclear. An official from the Ministry of Religious Affairs commented, "The

Religious Courts have developed expertise in Islamic financial disputes, but their role in resolving digital commerce disputes involving Sharia-based MSMEs needs further clarification and possibly expansion through regulatory reform."

Alternative dispute resolution (ADR) mechanisms such as mediation and arbitration offer potential advantages for Sharia-based MSMEs, including faster resolution, lower costs, and the possibility of incorporating Islamic principles into the dispute resolution process. The Indonesian National Board of Arbitration (BANI) and the Indonesian Sharia Arbitration Board (BASYARNAS) provide institutional frameworks for arbitration, including some cases involving digital transactions. However, several interviewees noted limitations in the accessibility and digital readiness of these institutions. A Sharia-based MSME owner who had experienced a dispute with a digital platform commented, "The existing arbitration institutions are not well-equipped to handle disputes arising from digital transactions, particularly those involving smaller businesses with limited resources."

Online dispute resolution (ODR) platforms represent an emerging option that could potentially address many of the limitations of traditional dispute resolution mechanisms. ODR platforms use technology to facilitate the resolution of disputes through negotiation, mediation, or arbitration in a virtual environment. An expert in Islamic commercial law observed, "ODR platforms could be adapted to incorporate Islamic principles and provide accessible dispute resolution for Sharia-based MSMEs. However, the development of such specialized platforms remains limited in Indonesia, and their decisions may lack legal enforceability without appropriate regulatory frameworks."

### **Capacity Building and Digital Literacy**

Capacity building and digital literacy represent critical dimensions of legal protection for Sharia-based MSMEs in the digital economy. The research found that many Sharia-based MSMEs, particularly smaller businesses, face significant challenges in understanding and navigating the complex legal landscape of the digital economy. Interviews with MSME owners revealed limited awareness of their legal rights and obligations in digital transactions, potential risks associated with different digital platforms, and available protection mechanisms. A representative from the Ministry of Cooperatives and SMEs acknowledged this issue, stating, "Many Sharia-based

MSMEs enter the digital economy without adequate understanding of the legal implications of their activities, creating vulnerabilities that could be addressed through targeted education and capacity building."

Digital literacy encompasses not only technical skills but also the ability to critically evaluate digital platforms and services from a Sharia compliance perspective. The research identified several areas where Sharia-based MSMEs require specific knowledge and skills: evaluating the Sharia compliance of digital payment systems, understanding the implications of data sharing agreements with digital platforms, assessing the alignment of digital marketing tools with Islamic ethical principles, and structuring digital transactions to comply with Islamic contractual requirements. An Islamic finance expert commented, "Digital literacy for Sharia-based businesses must go beyond basic technical skills to include the ability to assess whether digital tools and platforms align with Islamic principles."

Existing capacity building initiatives for MSMEs in Indonesia include training programs offered by government agencies, business associations, and educational institutions. However, analysis of these programs revealed limited attention to the specific needs of Sharia-based businesses in the digital economy. A representative from a Sharia business association noted, "Most digital literacy programs focus on general skills like setting up an online store or using social media for marketing, without addressing the unique considerations of Sharia compliance in these activities."

Interviews with MSME owners highlighted the importance of peer learning and community support in navigating the digital economy. Several successful Sharia-based MSMEs had benefited from informal networks and communities where businesses share experiences and strategies for maintaining Sharia compliance while leveraging digital opportunities. An owner of a Sharia-based fashion business commented, "Learning from other businesses that share our values has been more valuable than formal training programs. We need more platforms for knowledge sharing among Sharia-based MSMEs in the digital economy."

The research also identified the need for specialized advisory services for Sharia-based MSMEs entering the digital economy. While larger businesses can afford consulting services or in-house expertise, smaller businesses often lack access to guidance on structuring their digital operations in a Sharia-compliant manner. A representative from OJK highlighted this gap, stating, "There is a

need for affordable advisory services that combine technical expertise in digital business models with knowledge of Islamic commercial principles. Such services could significantly enhance the legal protection of Sharia-based MSMEs in the digital economy."

## **E. CONCLUSION**

This research has examined the legal protection framework for Sharia-based MSMEs in Indonesia's digital economy, identifying significant gaps and challenges in the current system. The findings indicate that while Indonesia has established a general legal framework for the digital economy and MSME development, this framework does not adequately address the specific needs and characteristics of businesses operating according to Islamic principles. Sharia-based MSMEs face unique challenges in ensuring compliance with Islamic commercial principles while participating in digital markets, accessing appropriate financing, resolving disputes, and protecting their intellectual property. The existing legal framework focuses primarily on prohibitions (such as avoiding interest) rather than providing comprehensive guidance for positive compliance with Islamic principles in the digital context.

Based on these findings, several recommendations emerge for enhancing the legal protection of Sharia-based MSMEs in the digital economy. First, regulatory reforms should aim to create a more inclusive legal framework that explicitly recognizes and accommodates the specific needs of Sharia-based businesses. This could include the development of specialized regulations for Sharia-compliant digital transactions, certification systems for digital platforms serving Islamic markets, and dispute resolution mechanisms that incorporate Islamic commercial principles. Second, capacity building initiatives should be enhanced to improve the digital literacy and legal awareness of Sharia-based MSME operators, enabling them to more effectively navigate the digital economy while maintaining compliance with Islamic principles. Third, greater coordination is needed between conventional regulatory authorities and Islamic institutions such as the National Sharia Board to ensure harmony between secular regulations and Islamic commercial principles. Finally, further research should explore innovative approaches to legal protection that leverage technology to address the unique challenges faced by Sharia-based MSMEs, such as blockchain-based compliance verification systems or specialized online dispute resolution platforms. By addressing these recommendations, Indo-

nesia can develop a more comprehensive and effective legal protection framework that supports the growth and sustainability of Sharia-based MSMEs in the digital economy, contributing to broader economic development goals while respecting religious values and principles.

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