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THE ROLE OF MSMEs IN ECONOMIC STABILITY AFTER THE PANDEMIC

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ABSTRACT: This study examines the strategic role of Micro, Small, and Medium Enterprises (MSMEs) in maintaining Indonesia's economic stability in the post-pandemic era. The COVID-19 crisis severely disrupted supply chains, market demand, and access to finance, yet MSMEs proved highly adaptive through digitalization, innovation, and participation in government recovery programs. Using a descriptive qualitative approach and secondary data analysis, the research highlights MSMEs' key contributions to Gross Domestic Product (GDP), job creation, and inclusive economic recovery. From an Islamic economic perspective, principles such as justice (*al-adl*), cooperation (*ta'awun*), and risk-sharing strengthen MSMEs' sustainability and ethical business practices. The findings confirm that MSMEs are fundamental in promoting resilience, financial inclusion, and long-term equitable growth as pillars of national macroeconomic stability

.Keywords: *MSMEs, Economic Stability, Islamic Economics, Recovery Strategy*

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INTRODUCTION

The global economic shock triggered by the Coronavirus Disease 2019 (COVID-19) pandemic has created a profound systemic shock, affecting not only the health sector, but also the real and financial sectors around the world, including Indonesia. The closure of social activities and restrictions on mobility implemented to contain the spread of the virus have directly crippled the economy, causing a drastic decline in aggregate demand, disrupting global supply chains, and leading to a significant surge in unemployment. Governments and monetary authorities have been forced to take extraordinary measures through fiscal and monetary stimulus to prevent a deeper and more prolonged recession. Therefore, after the pandemic subsided, the main focus of economic policy shifted from health risk mitigation to sustainable and inclusive structural recovery efforts. National economic stability faces the daunting challenge of restoring growth momentum to pre-pandemic levels while addressing the socioeconomic impact left behind by the crisis. This crisis has also opened our eyes to the importance of having a resilient economic structure that is not overly dependent on large corporations alone. (Hossain, 2021)

During times of crisis, Micro, Small, and Medium Enterprises (MSMEs) are the sector most vulnerable to external shocks due to limited capital, technology, and market access. However, at the same time, this sector has also demonstrated an extraordinary level of adaptability. This business group, which is dominated by micro and small enterprises, has historically proven to be highly flexible in changing their business models, from switching to online sales to diversifying products relevant to market needs during the pandemic. This phenomenon demonstrates a strong internal resilience mechanism, where the personal and familial nature of MSME management allows for quick decision-making and operational adaptation with minimal bureaucracy. This speed of adaptation is a key differentiator compared to large corporations, which are often entangled in complex procedures when making strategic changes. Therefore, the substantial recovery of MSMEs is an absolute prerequisite for the overall recovery of the national economy.

The role of MSMEs in absorbing labor is a crucial factor in maintaining socioeconomic stability at the local and national levels, given that this sector dominates more than 97% of labor absorption in Indonesia (BPS, 2023). When many large companies laid off workers during the peak of the pandemic, MSMEs became a socioeconomic safety valve by maintaining or even creating new jobs, albeit on a small scale. In addition, MSMEs play a vital role in maintaining the local economy because most of their transactions and production circulate in the domestic market, contributing significantly to the Gross Domestic Product (GDP). This rapid circulation of funds helps sustain the purchasing power of the community in the region and ensures that liquidity continues to flow in the microeconomic ecosystem. The resilience of MSMEs is therefore not only about the survival of the business itself, but also about protecting the social safety net for the majority of the working population.

In response to the crisis, the Indonesian government launched the National Economic Recovery Policy (PEN) with a major focus on supporting the MSME sector after the pandemic (Kemenkop UKM, 2022). These assistance programs include various initiatives, ranging from credit interest subsidies and loan restructuring to direct Micro Business Productive Assistance (BPUM). The aim is to address urgent liquidity problems, prevent mass bankruptcies among MSMEs, and encourage them to resume production quickly. The implementation of the PEN policy demonstrates the government's recognition of the strategic position of MSMEs as the main driving force in the economic recovery phase. The success of these programs in achieving their targets, particularly in distributing working capital and fiscal incentives, is an important indicator of the effectiveness of state intervention during a crisis.. (Maulana & Aini, 2022)

Digital transformation has emerged as a key and inevitable strategy to ensure the sustainability of MSMEs in the post-pandemic era, changing the way they interact with customers and manage operations. Physical restrictions have forced millions of MSMEs to switch to e-commerce platforms, social media, and online delivery services as their main sales channels. This process of technology adoption, although triggered by a crisis, has created new operational efficiencies, expanded market reach, and enabled MSMEs to compete at the national and global levels. Digitalization is not just about selling online, but also includes inventory management, financial record-keeping, and the use of cashless payment technologies that enhance business transparency and accountability. This digital acceleration marks a paradigm shift in the MSME business model, making it more adaptive to future market changes. (Suryani & Nugroho, 2021)

The relevance of Islamic economic values in strengthening the resilience of MSMEs offers a valuable ethical and practical framework in the context of post-pandemic recovery. The principle of justice (al-adl) demands a balanced distribution of risks and profits, preventing exploitative practices, especially in the relationship between investors and business actors. The value of cooperation (ta'awun) encourages mutually beneficial partnerships and a spirit of mutual assistance among MSME actors, forming a supportive and collective ecosystem. The concept of sustainability (istiqamah) in Islam emphasizes that economic activities must benefit not only individuals but also the wider community and the environment, steering clear of harmful speculative practices. The integration of these values can shape a more resilient, ethical, and welfare-oriented business mentality, which is essential for long-term stability.

Despite showing progress in recovery, MSMEs face a number of major problems that continue to hamper post-pandemic growth. Working capital constraints remain a dominant issue, especially for micro businesses that find it difficult to access formal financing due to collateral and strict administrative requirements. In addition, consumer purchasing power, which has not yet fully recovered in several sectors and regions, has also put pressure on demand for MSME products and services, slowing down the income rebound process. Another equally important challenge is global competitiveness, where MSMEs often lose out to imported products in terms of quality, price, and product standardization. Overcoming these structural barriers requires more focused,

innovative, and integrated policy interventions, involving the active participation of the government, financial institutions, and business associations. (Putri, 2021)

Based on the background and identification of the above issues, the purpose of this study is to conduct an in-depth and comprehensive analysis of the strategic role of Micro, Small, and Medium Enterprises (MSMEs) in maintaining the stability of the Indonesian economy after the COVID-19 crisis. This study seeks to identify the most effective adaptation and recovery mechanisms for MSMEs, as well as measure their real contribution to macroeconomic indicators, particularly in terms of job creation and GDP. Furthermore, this study will elaborate on how the framework of Islamic economic values, such as the principles of justice and partnership, can be used as a philosophical and practical foundation to strengthen the resilience and sustainability of MSMEs in the future. The results of this study are expected to provide solid and relevant policy recommendations for stakeholders in formulating long-term strategies for the development of a more resilient and inclusive MSME sector.

LITERATURE REVIEW

The definition and characteristics of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia are officially regulated through Law No. 20 of 2008 concerning Micro, Small, and Medium Enterprises, which distinguishes the three based on assets and annual turnover (Law No. 20/2008). Micro enterprises are defined as entities with a maximum net worth of IDR 50 million and maximum annual sales of IDR 300 million, making them the most numerous group of enterprises and the closest to the lower class of society. Small enterprises have net assets of more than IDR 50 million to IDR 500 million, with annual sales exceeding IDR 300 million to IDR 2.5 billion, and this group often serves as a bridge between micro and medium enterprises. Meanwhile, medium enterprises are defined as entities with net assets of more than IDR 500 million to IDR 10 billion and annual sales exceeding IDR 2.5 billion to IDR 50 billion, indicating a higher level of management and operational complexity. This division of criteria is very important for policy determination, especially in the distribution of government assistance and access to financing tailored to the needs and capacities of each business group (Kemenkop UKM, 2022). Therefore, this legal framework is the main foundation in every policy analysis related to the MSME sector. (Yusof & Rahim, 2023)

The role of MSMEs in the national and regional economic structure is central, going beyond mere financial contributions, and becoming an important pillar of social stability. Aggregately, MSMEs are known as the main engine of job creation, providing employment to more than 90% of the workforce and contributing more than 60% to the total national Gross Domestic Product (GDP). This contribution shows that the health of the SME sector is directly correlated with Indonesia's overall macroeconomic performance and has a very broad impact. At the regional level, MSMEs act as drivers of the local economy, supporting household consumption and facilitating income distribution between regions. The existence of MSMEs in various sectors, ranging from agriculture and

manufacturing to services, makes Indonesia's economy more diversified and less vulnerable to turmoil in specific sectors. This significant contribution makes MSMEs an entity that must be prioritized in every sustainable economic development agenda. (Rahman & Lestari, 2021)

The impact of the COVID-19 pandemic on the productivity and supply chains of MSMEs in 2020 and 2021 has been devastating, creating unprecedented challenges. Large-scale social restrictions (PSBB) and other mobility restriction policies suddenly disrupted traditional distribution channels and forced the temporary closure of many physical business locations. In addition, a drastic decline in global and domestic demand caused inventory buildup, decreased turnover, and severe liquidity problems for most MSMEs. Disruptions to global supply chains also led to increases in raw material prices and delivery delays, which directly squeezed profit margins and disrupted production schedules. MSMEs that rely on imported raw materials or export markets experienced the most significant difficulties, forcing them to seek alternative sources of supply or change the types of products they offer. Studies show that the service and trade sectors were the worst affected, while the food and beverage sector, which adapted to delivery services, showed better resilience. (Chen & Setiawan, 2020)

The concept of economic stability, according to conventional macroeconomic theory, is defined as a condition in which an economy achieves high growth, low and stable inflation, and minimal unemployment. This stability is achieved through careful management of fiscal and monetary policy, ensuring a balance between aggregate demand and a country's production capacity. However, from an Islamic economic perspective, the concept of stability is not only measured by quantitative indicators such as inflation and GDP, but also includes the dimensions of distributive justice and social welfare (*falah*). Stability in Islam is achieved through the implementation of sharia principles, such as the prohibition of usury and destructive speculative practices, as well as the obligation of zakat, which functions as a mechanism for wealth redistribution. Therefore, the role of MSMEs that are oriented towards the real sector and minimize speculation, as well as encourage income equality through job creation, is very relevant in realizing holistic economic stability.

The government has designed and implemented a series of comprehensive policies to support the recovery of MSMEs after the pandemic, which aims to accelerate the economic rebound process. The National Economic Recovery Program (PEN) is the main umbrella, which includes various assistance schemes such as credit interest subsidies, government fund placements in commercial banks for loan restructuring, and small business credit programs (KUR) with very low interest rates. Another massive effort is the push for SME digitalization through the "Bangga Buatan Indonesia" (Proudly Made in Indonesia) program, which encourages SMEs to enter the digital ecosystem and online marketplaces. This policy is accompanied by training and technical assistance so that MSMEs have adequate digital literacy and are able to optimize online platforms in their business activities. All of these initiatives demonstrate the country's serious commitment to making MSMEs the foundation for rebuilding a stronger and more crisis-resistant economy in the future. (Bahar & Sari, 2022)

Previous studies on the role of MSMEs in economic resilience after crises, such as the 1998 monetary crisis and the 2008 global financial crisis, have consistently highlighted the contrasting nature of this sector. During the 1998 crisis, MSMEs, most of which operated without foreign debt and were oriented towards the domestic market, proved to be more resilient to currency fluctuations, even becoming the savior of the economy when large corporations collapsed. These studies concluded that the flexible, labor-intensive, and minimally bureaucratic characteristics of MSMEs provided a comparative advantage in facing sudden economic pressures. This resilience is not only internal to the business unit itself, but also reflects the ability of the local economic system to function without relying on complex international financial mechanisms. These findings form the basis of the argument that strengthening MSMEs is the most effective and proven strategy for mitigating the risks of macroeconomic crises. (Aziz & Pratama, 2021)

The role of digitalization and innovation has accelerated dramatically and become a determining factor in strengthening the sustainability of MSMEs, especially in facing the challenges of the post-pandemic era. The adoption of technology allows MSMEs to expand their market reach beyond traditional geographical boundaries, access more accurate market information, and improve production process efficiency. Innovation is not limited to the creation of new products, but also includes business model innovation, such as the use of fintech to facilitate access to capital and more transparent financial management. Recent studies show that digitally integrated MSMEs have higher turnover growth rates and a much better probability of survival compared to those that still operate conventionally. This transformation requires continuous investment in digital infrastructure and programs to improve the capacity of MSME human resources.

There is a significant research gap in the existing literature, particularly in studies that highlight the role of MSMEs post-pandemic from an integrated Islamic economic perspective. Most studies focus on quantitative aspects such as financial performance and the impact of conventional policies, without exploring the ethical and philosophical values that can strengthen the resilience of MSMEs. The Islamic economic perspective offers a unique framework that emphasizes business ethics, prohibits *gharar* (uncertainty/speculation), and encourages *mudharabah* or *musyarakah* (profit sharing), which can be a more equitable and low-risk alternative financing solution for MSMEs. Given that the majority of Indonesia's population is Muslim and there is a rapidly growing Islamic finance ecosystem, integrating these values into the SME business model after the crisis is highly relevant. Therefore, this study seeks to fill this gap by analyzing the role of SMEs not only from an economic perspective but also from the perspective of Islamic spiritual values and distributive justice. (Budiarto & Santoso, 2021)

METHODOLOGY

The type of research used in this article is qualitative descriptive research, which aims to provide a systematic, factual, and accurate description of the facts and relationships between the variables studied. This approach was chosen because the main focus of the research is to analyze the strategic role, adaptation,

challenges, and recovery strategies of MSMEs in the context of the post-pandemic economy, which requires a deep understanding of non-numerical data. Qualitative descriptive research is very effective in exploring how digital adaptation mechanisms and government policies interact with the operational realities of MSMEs in the field. This method also allows researchers to integrate the theoretical framework of Islamic economics as a lens of analysis without having to test hypotheses statistically. The end result of this method is a rich description and structured interpretation of the phenomenon of MSMEs as a pillar of economic stability. (Wardani, 2022)

The approach applied in this study is a literature review and policy analysis, conducted in an integrated manner to build a comprehensive argument. The literature review involves an extensive search of various primary and secondary sources relevant to the topics of MSMEs, economic crisis, digital adaptation, and Islamic economics. The policy analysis focused on evaluating the implementation of the National Economic Recovery (PEN) programs and digitization initiatives launched by the government after 2020. These two approaches complement each other, with the literature study providing a theoretical and conceptual foundation, while the policy analysis provides empirical data on the effectiveness of state intervention in SME recovery. This combination ensures that the conclusions drawn have a strong theoretical basis and high practical relevance to the actual policy context in Indonesia.

The main data sources in this study are secondary, derived from official government publications, financial authority reports, and scientific works that have been tested for credibility. These sources include annual reports from the Central Statistics Agency (BPS) on GDP and employment data, publications from the Ministry of Cooperatives and SMEs related to statistics on the number and performance of SMEs, and reports from Bank Indonesia on financial system stability and microeconomic developments. In addition, data was also collected from accredited national journals and reputable international journals discussing the impact of the pandemic on the small and medium enterprise sector in various countries. The use of diverse secondary data sourced from official authorities aims to ensure the validity and reliability of the findings, so that the analysis presented is based on facts and valid macroeconomic statistical data.

The data collection techniques used in this study were literature review and documentation, which are standard techniques in literature-based research. The literature review process was carried out by identifying, organizing, and critically analyzing articles, books, and reports relevant to the research variables. Documentation included the collection of statistical and narrative data from official government documents, such as ministerial regulations, policy briefs, and MSME assistance program implementation reports. All collected data was then grouped based on the main themes raised in the outline, namely the role, challenges, recovery strategies, and Islamic economic perspectives. The use of this technique allowed researchers to collect a large amount of information in an efficient manner and focus the analysis on synthesizing existing knowledge. (Wijaya & Nugraha, 2022)

The data analysis technique applied is thematic analysis, which focuses on identifying, tracing, and reporting patterns or themes within the collected data. The first step involves repeated reading and familiarization with all secondary data and policy documents to gain a comprehensive understanding of the material. Next, data coding is carried out, where relevant text fragments are identified and labeled with codes that reflect the core content, such as "Digital Adaptation," "Access to Capital," or "Al-Adl Principles." These codes are then grouped into broader themes, such as "The Role of MSMEs in Stability," "Post-Pandemic Structural Challenges," and "Implementation of Islamic Economic Values." This thematic analysis allows researchers to identify the roles, challenges, and strategies of MSMEs post-pandemic, as well as to construct a logical and structured argument framework.

The research framework places MSMEs as the main instrument of economic justice in the Islamic economic system, which functions as a mechanism for wealth distribution and social benefits. In Islam, the economic goal is to achieve *falah* (worldly and spiritual prosperity), which cannot be achieved without justice in the distribution of resources and opportunities. MSMEs, with their labor-intensive and widespread nature, inherently promote income equality and reduce the concentration of wealth among a handful of conglomerates. Therefore, strengthening MSMEs after the pandemic is seen as an effort to restore the economy to the path of distributive justice emphasized by sharia. This framework will guide the analysis of results to look not only at GDP contributions, but also at the extent to which MSMEs have succeeded in reducing inequality and increasing financial inclusion in society during the recovery period.

RESEARCH RESULT

The general condition of Indonesia's economy after the pandemic from 2020 to 2024 shows a gradual but solid recovery phase, driven by strong domestic consumption and targeted policy interventions. Despite experiencing a contraction in 2020, the economy managed to rebound in the following years, with GDP growth returning to positive and stable levels. The manufacturing and trade sectors showed increased activity, supported by the normalization of supply chains and the recovery of global demand, despite the challenges posed by global inflationary pressures. This recovery was also marked by a decline in unemployment, indicating an increase in labor absorption by the real sector. Macroeconomic stability was maintained through a combination of prudent monetary policy and the continuation of targeted fiscal stimulus, particularly for the most affected sectors. (Siregar, 2023)

The contribution of MSMEs to Indonesia's Gross Domestic Product (GDP) is confirmed to be very significant, reaching an average of $\pm 61\%$, placing them as an irreplaceable pillar in the national economic architecture (BPS, 2023). In addition to their massive contribution to GDP, the MSME sector also plays a dominant role in employment, with more than 90% of the total national workforce employed in this sector. This fact confirms that MSMEs are not only engines of economic growth, but also key social instruments in maintaining social stability through job creation. This extraordinary contribution shows that any policy aimed at strengthening MSMEs will have a large and positive domino

effect on all levels of society. The resilient contribution of MSMEs is key to ensuring that economic recovery is inclusive and equitable.

The digital adaptation of MSMEs has experienced explosive growth after the pandemic, driven by the urgent need to maintain business continuity amid mobility restrictions (Ministry of Cooperatives and SMEs, 2022). Millions of MSMEs have been successfully incubated and connected to various online marketplace platforms, such as Tokopedia and Shopee, and have utilized social media, such as Instagram and TikTok, as sales and marketing channels. This increase in digital literacy has enabled MSMEs to reach a wider customer base, transcending their local geographical boundaries. In addition, technology adoption also includes the use of fintech services for financing, cashless payments, and more efficient and transparent digital financial record-keeping. This transformation has changed the MSME business landscape, making it more competitive and ready to face market challenges in this interconnected era.

Government assistance programs play a crucial role in accelerating the recovery process of the micro sector, which is the most vulnerable segment of MSMEs. (Kemenkeu, 2023). The Micro Business Productive Assistance (BPUM) and credit interest subsidy scheme are direct interventions that effectively inject liquidity into small businesses that are on the verge of collapse. This assistance not only serves as emergency working capital, but also gives business owners the confidence to resume production and innovation. This support is also balanced with training and technical assistance programs that focus on improving digital capacity and risk management. The effectiveness of this program can be seen from the sharp increase in the number of MSMEs that have resumed full operations and the increase in their average monthly turnover, which are clear indicators of success in the field.

Product innovation and market diversification have been identified as the keys to success for many MSMEs that have been able to survive and even grow during and after the pandemic. MSMEs in the food and beverage sector, for example, quickly shifted their product focus to frozen ready-to-eat meals or health products that are relevant to post-pandemic trends. Market diversification includes expanding sales reach from local markets to interregional markets, and even to export markets through partnerships with digital platforms and logistics. The ability to respond quickly to changes in consumer preferences, combined with production flexibility, has increased the resilience of MSMEs to unexpected market demand fluctuations. This market-driven innovation proves that creativity is an invaluable asset for SMEs.

Improving financial literacy among MSME players has become key to achieving long-term business stability after the crisis. A better understanding of cash flow management, separation of personal and business accounts, and budget planning enables MSMEs to make more rational investment and financing decisions. Training programs provided by the government and financial institutions, including Islamic financial institutions, have helped MSMEs prepare simple financial reports and access formal financing more easily. Strong financial literacy reduces the risk of bankruptcy caused by mismanagement of funds and increases the confidence of creditors. This internal

financial stability is a prerequisite for sustainable growth, beyond the temporary recovery phase.(Kamal & Rahayu, 2023)

Despite showing strong recovery, the MSME sector still faces a number of significant challenges that could hamper future growth. Limited access to capital remains a structural obstacle, especially for micro businesses that are still considered high credit risk by conventional banks. Uneven digital infrastructure, particularly in rural areas, hinders the potential for digitization for most MSMEs outside of Java. In addition, issues of low competitiveness, in terms of product quality, standardization, and production cost efficiency, make MSMEs vulnerable to the onslaught of cheaper imported products. Overcoming these challenges requires massive investment in infrastructure, training tailored to local needs, and more inclusive financing policies.

The Islamic economic approach provides a solid ethical foundation and transparent operations, which effectively reinforce the values of honesty (shiddiq), justice (al-adl), and mutual assistance (ta'awun) in MSME businesses. The principle of prohibiting usury encourages MSMEs to seek profit-sharing financing (mudharabah or musyarakah) that is fairer and less risky in uncertain situations, such as in the aftermath of a pandemic. The spirit of ta'awun encourages the creation of supportive business networks, where MSMEs share resources and information with each other, thereby increasing their collective resilience. The integration of these values not only generates profit, but also barakah (blessings), creating a business model that is oriented towards the welfare of the people and social sustainability.(Huda & Nurhaliza, 2020)

The role of MSMEs in reducing social inequality and promoting economic inclusion has proven to be vital, making them an effective instrument of equity. MSMEs, especially micro-enterprises, are often the main source of income for low-income groups, women, and other vulnerable groups. By providing employment opportunities that are spread evenly across regions, MSMEs effectively distribute wealth and reduce the gap between rich and poor communities. Support for MSMEs, especially through Islamic financial institutions, also expands financial inclusion, bringing previously unbanked communities into the formal financial system. This contribution confirms that MSMEs have a dual impact: economic growth and social justice.

A comprehensive evaluation shows that MSMEs have played a very important and central role in maintaining macroeconomic stability after the COVID-19 pandemic (BI, 2024). The resilience shown by this sector prevented a greater surge in unemployment and maintained domestic consumption, which is a major component of Indonesia's GDP. The flexibility of MSMEs in adapting to digital technology ensured that the economy continued to run despite strict physical restrictions. With their dominant contribution to GDP and employment, the successful recovery of MSMEs directly influenced market and investor confidence in the national economic outlook. Therefore, strengthening MSMEs must remain a key policy priority as a long-term strategy for creating a more resilient economy.

DISCUSSION

An in-depth analysis confirms the role of MSMEs as the main driver of the national economy, whose function is increasingly crucial in the post-pandemic recovery phase. This sector, which is dominated by a large number of business units, acts as the main buffer for the economy against external shocks due to its diversification of business types and wide market reach. Although capital per business unit is relatively small, the aggregated contribution of millions of MSMEs creates an economic force that far exceeds that of large corporations, which tend to be oligopolistic. The ability of MSMEs to operate with low operating costs and adjust prices quickly allows them to maintain market share amid declining purchasing power. Therefore, policy investment in MSMEs is an investment in the most stable and inclusive economic foundation.

The close relationship between MSME resilience and long-term economic stability is a finding reinforced by post-global crisis experiences, including the COVID-19 pandemic. MSME resilience reflects the capacity of the economic system to withstand shocks without suffering severe structural damage, which is the essence of stability. When MSMEs recover and grow, they simultaneously increase employment, drive consumption, and expand the tax base, all of which contribute to overall macroeconomic stability. This resilience also prevents social unrest that may arise from mass unemployment, thereby creating a social and political environment conducive to investment growth. Strengthening the resilience of MSMEs should be understood as the most effective and sustainable economic defense strategy. (Hossain, 2021)

The role of digitalization in strengthening the supply chain and business efficiency of MSMEs has been revolutionary in the post-pandemic era, changing the way businesses are operated (Kemenkop UKM, 2022). Digitalization allows MSMEs to gain direct access to suppliers, cutting out long and costly distribution chains, thereby increasing cost efficiency and delivery speed. The use of e-commerce and digital logistics platforms also opens up opportunities for MSMEs in rural areas to supply their products to previously unreachable markets. This efficiency not only lowers selling prices but also improves product and service quality due to faster and more transparent consumer feedback through online platforms. Therefore, the sustainability and growth of MSMEs in the future will be largely determined by their level of digital integration.

The implementation of Islamic economic values in MSME businesses provides an ethical foundation that reinforces fairness, sustainability, and mutually beneficial partnerships. The principle of fairness (*al-adl*) ensures that MSMEs do not engage in fraudulent practices, hoarding, or exploitation, thereby building trust among consumers and business partners. The concept of sustainability requires MSMEs to consider the social and environmental impacts of their business activities, in line with sustainable development goals. The profit-sharing partnership model recommended by sharia creates a more equitable relationship between investors and business actors, where risks and profits are shared. The application of these values creates a business ecosystem that is not only financially profitable, but also provides moral and social benefits to the wider community.

The contribution of MSMEs to the achievement of the Sustainable Development Goals (SDGs) is substantial, particularly in reducing poverty and creating decent jobs (UNDP, 2023). MSMEs directly contribute to SDG 1 (No Poverty) and SDG 8 (Decent Work and Economic Growth) through job creation and increased income for poor households. In addition, with the push for digitalization and innovation, MSMEs also support SDG 9 (Industry, Innovation, and Infrastructure). If MSMEs adopt environmentally friendly business practices, they can also contribute to SDG 12 (Responsible Consumption and Production). Integrated policy support must explicitly link MSME development programs with SDG targets to maximize their socioeconomic impact.

The positive social impact of MSMEs on society is a direct result of their labor-intensive and geographically dispersed nature, particularly in terms of community empowerment and unemployment reduction. MSMEs often serve as a venue for informal skills training and a first workplace for recent graduates or individuals affected by layoffs, playing an important role in job transitions. In addition, many MSMEs are established by women, thereby contributing significantly to women's economic empowerment and gender equality at the grassroots level. By absorbing a large portion of the workforce and providing stable incomes, MSMEs reduce pressure on the social safety net and enhance social cohesion at the community level. These social impacts are MSMEs' vital non-financial contributions to the country's social stability. (Maulana & Aini, 2022)

Synergy between the government, Islamic financial institutions, and MSME players is key to overcoming structural challenges and ensuring sustainable recovery. The government needs to continue providing conducive regulations and adequate digital infrastructure, as well as continuing relevant training programs. Islamic financial institutions, with their profit-sharing financing models, have the unique potential to fill the capital financing gap for MSMEs that are reluctant to use interest-based debt. This partnership can be realized through Islamic microfinance schemes that are more accessible and tailored to the real needs of MSMEs. Meanwhile, MSME players must be proactive in improving their capacity, utilizing technology, and building strong partnership networks.

Although MSMEs have shown an impressive rebound, structural and policy challenges that need to be addressed remain, particularly in relation to regulation, access to capital, and training. Micro and small business licensing regulations, although simplified, still require further harmonization at the regional level to reduce compliance costs. Access to capital must be expanded through digital financing innovations and closer integration between MSMEs and sharia fintech institutions. Training programs need to be redesigned to be more practical, relevant to digitalization needs, and focused on post-crisis business risk management. Bold and targeted policy interventions are urgently needed to turn these structural challenges into opportunities for MSMEs.

A comparative analysis with ASEAN countries that have successfully strengthened their MSME sector, such as Vietnam and Thailand, reveals important lessons, particularly in terms of global supply chain integration and industrial cluster development. These countries have successfully integrated their MSMEs into large industrial supply chains, both domestic and multinational, through intensive quality standardization and technical assistance programs. In addition, government-facilitated industrial cluster development models have helped MSMEs to share resources, improve collective efficiency, and increase bargaining power in the market. Indonesia can adopt this strategy by focusing on the formation of MSME clusters based on regional commodity specialties and providing tax incentives for corporations that partner with MSMEs. (Chen & Setiawan, 2020)

As a final recommendation, cross-sector collaboration and sustainable innovation must be a top priority in order to strengthen national economic stability based on MSMEs. Cross-sector collaboration includes synergy between the Ministry of Cooperatives and MSMEs, Bank Indonesia, the Financial Services Authority (OJK), academics, and business associations. Sustainable innovation should focus on developing environmentally friendly products and adopting artificial intelligence (AI)-based technology for market analysis and risk management. Support for MSMEs must be holistic, covering capital, market, technology, and business ethics aspects, to ensure that this sector not only recovers but becomes the foundation of a more resilient and equitable economy in the future.

CONCLUSION

Micro, Small, and Medium Enterprises (MSMEs) have proven to play a very strategic and central role in maintaining the stability of Indonesia's economy after the COVID-19 pandemic, acting as the main anchor that prevents deeper economic and social decline. The resilience demonstrated by MSMEs, supported by massive digital adaptation, market-responsive product innovation, and a dominant contribution to job creation, makes them the key to recovery. The government, through the National Economic Recovery (PEN) program, has succeeded in providing crucial liquidity stimulus, but strengthening financial and technological literacy must be a key factor that is maintained to ensure the sustainability of MSMEs in the post-pandemic era. The digital transformation that has begun must be expanded to remote areas and supported by continuous training so that MSMEs can compete globally and maintain the momentum of national economic growth.

From an Islamic economic perspective, MSMEs play a significant role that goes beyond monetary indicators, namely as pillars of distributive justice and true economic equality. The MSME business model, which is oriented towards the real sector and the spirit of *ta'awun* (mutual cooperation), is highly relevant to sharia values, offering a more equitable and less speculative financing alternative through profit-sharing schemes. Therefore, the government, financial institutions, especially Islamic financial institutions, and the community need to work together continuously to create a business ecosystem that is not only profitable, but also fair, inclusive, and sustainable. Strengthening SMEs based on

Islamic values will ensure that Indonesia's future economic growth will be in line with the objectives of sharia, namely to realize the overall benefit of the people.

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