

## Reduction of Digitalization Policy in Indonesian MSMEs and Implications for Sharia Economic Development

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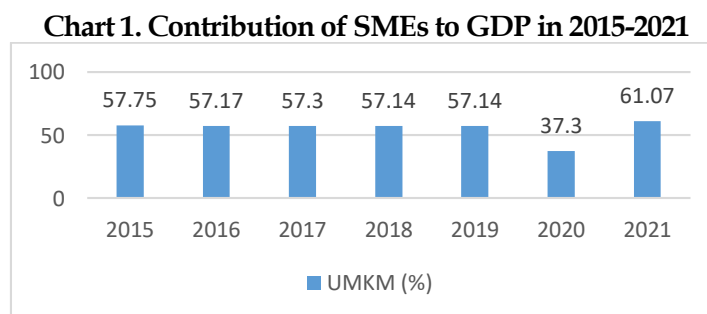
| Recieved: 28-08-2022 | Revised: 08-11-2022 | Accepted: 14-11-2022

**Abstract:** Micro, Small, and Medium Enterprises are one of Indonesia's economic buffer pillars. However, its position as a financial buffer still faces various problems. The purpose of this research is to examine the reduction of digitalization policies for Indonesian MSMEs and their implications for the development of the Islamic economy. This research is normative legal research with a statutory approach. The results showed that the provisions in the Copyright Law that require the digitization of MSMEs make its management more efficient and straightforward. During the COVID-19 pandemic, there has been a twofold increase in the number of businesses transitioning to the digital ecosystem. MSMEs are present in the development of the Islamic economy, with the possibility of managing MSMEs in the technology-based halal industry. Deregulation is carried out by simplifying regulations in order to improve the flow of bureaucracy. However, behind the ease, there are obstacles experienced by MSMEs in their digitalization efforts, including blocks in terms of community culture, regulation, and structure.

**Keywords:** MSMEs; Digitalization; Management; Sharia Economic; Law.

### Introduction

Micro, Small and Medium Enterprises (MSMEs) as part of the business sector are driving the wheels of the domestic economy in Indonesia. The existence of MSMEs has enough strategic role, this is indicated by its considerable contribution to the growth of Gross Domestic Product (GDP), as well as its contribution to opening up employment opportunities, thus playing a role in reducing unemployment and poverty rates in the community (Novikasari et al., 2021). Chart 1 presents data on the contribution of MSMEs to Gross Domestic Product (GDP) in Indonesia from 2015 to 2020.



Source: Ministry of Cooperatives and SMEs (2021)

The data shows that the role of MSMEs in GDP reached 57.32%. The year 2020 was the lowest one since 2015, which was only 37.3%, a decrease of up to 38.14% compared to the previous year. The latest data obtained from the Ministry of Cooperatives and Small and Medium Enterprises (MC SMEs), in March

2021, as many as 64.2 million units of the MSME sector that contributed to GDP reached 61.07% or Rp.8.573.89 trillion. However, in reality the efforts to develop MSMEs encountered several obstacles, namely from the internal or external side related to their management. Various obstacles that become challenges for MSMEs were related to human resources (HR), business capital, and the knowledge of MSME business actors. In addition, another challenge faced was the disharmony of regulations. The previous regulations governing the process of licensing procedures were still considered to be difficult for MSME actors (Saeidi et al., 2015). These challenges had become increasingly difficult due to the COVID-19 pandemic. As a result, MSMEs were required to be able to adapt and innovate for business continuity (Kusumo et al., 2022). According to the findings of a Katadata Insight Center (KIC) survey of 139 digital startup executives conducted from May to June 2020, there were 74.8% of startups in good / very good condition at the end of 2019, precisely at the time before the pandemic, 21.6% in ordinary condition, and 3.6% in bad condition at the end of 2019. However, when the pandemic began, only 33% of startups were in good/very good condition, 24.5% were in ordinary condition, and 42.5% were in poor condition. This demonstrates that the pandemic is a significant impediment to business actors carrying out their operations. However, when entering a pandemic, the percentage of business conditions changed. The percentage of poor business conditions increased from before to 42.5%. So, the occurrence of a pandemic is quite an obstacle as well as a challenge for business actors, including MSMEs. (Szablowski & Campbell, 2019)

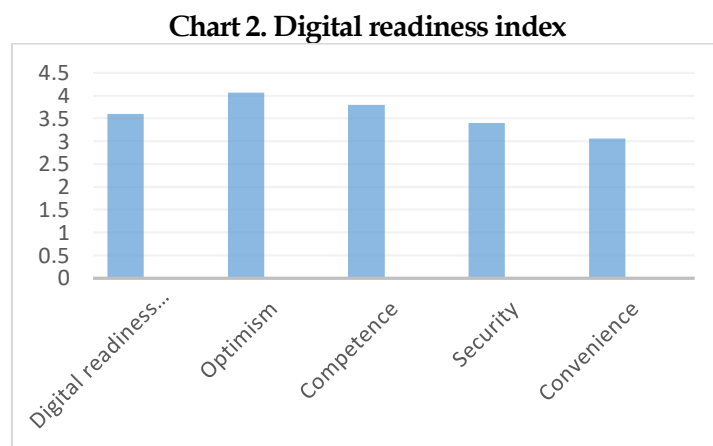
The presence of MSMEs allows for penetration of the sharia economy in Indonesia. The number of potential Muslim consumers also contributes to the growth of Indonesia's Islamic economy. According to the financial report on Indonesia's Islamic economy, the national sharia economy remained resilient throughout the economic recovery process in 2021. Improving performance was reflected in the recovery growth phase of priority sectors in the halal value chain (HVC) from the first to third quarters of 2021. Despite contracting -0.20% (yoy) in the first quarter of 2021, the economy improved incrementally compared with conditions at the end of 2020. HVC priority sectors expanded 4.1% (yoy) in the second quarter of 2021, with all HVC sectors contributing as growth drivers HVC priority sectors subsequently moderated to 1.69% (yoy) in the third quarter of 2021 as cases of the Delta variant spiked and the Government introduced level 4 community activity restrictions (PPKM). The restrictions curbed mobility in nearly all regions of Indonesia, thus impeding economic activity, particularly the MFT sector. Halal food was a leading driver of sharia economic growth, increasing 3.49% (YoY), primarily due to crude palm oil (CPO) and the various derivatives (Indonesia, 2021). MSMEs are present in the development of the Islamic economy, with the possibility of managing MSMEs in the technology-based halal industry. Several pioneers of the halal industry in Indonesia began their businesses in the digital economy, retail trade, and information dissemination to rural residents (Komite Nasional Keuangan Syariah, 2018). MSMEs in the Islamic economy sector have faced a number of challenges, the most serious of which are digitalization and halal certificates. Therefore, in facing the various challenges experienced by MSME actors, it is necessary to have policies both in terms of regulation and implementation. Deregulation is accomplished by simplifying regulations in order to improve bureaucratic flow (Ishak et al., 2020). The ease of bureaucratic flow needs to adapt to the times. As it is known, now Indonesia has penetrated the industrial era 4.0 with increasing connectivity that has been integrated into information and communication technology, including in economic activities. In economic activities, this is known as business digitization. (Oliviero & Scognamiglio, 2019)

In economic activities, this is known as business digitization (Oliviero & Scognamiglio, 2019). Currently, based on data from the MC SMEs, the number of MSMEs that have used digital technology has reached around 12 million (Yáñez-Araque et al., 2021). The digital transformation of MSMEs requires joint efforts between the government and business actors. Therefore, some government programs are dedicated to increase investment in certain areas such as innovation, product diversification, and increasing global competitiveness, which of course have a positive impact on MSMEs. The government's alignment with MSMEs is shown through the policies contained in the Job Creation Law, indicating that there is an effort

to centralize the management of a single database and manage MSMEs in an integrated and centralized manner (Sánchez-Infante Hernández et al., 2020). The existence of a new legal system issued by the government substantively changes the provisions and provides convenience related to the management of MSMEs, including from the regulatory aspect that regulates the digitalization of business legality to marketing. However, the transition of MSME management towards a digital system still encounters obstacles that are experienced by MSME actors (Deakin et al., 2017). According to Article 12 of Law Number 20 of 2008, as amended by Law Number 11 of 2020, the business licensing aspect aims to simplify the procedures and types of business licensing through a one-stop integrated service system, as well as waive business licensing fees for Micro Enterprises and provide business licensing fee relief for Small Businesses. Then, as defined in Article 91 paragraph (5), single licensing includes business licensing, Indonesian national standards, and halal product guarantee certification.

There is currently a Licensing Strive to Be Integrated Electronic or Online Single Submission (OSS), that is, a Licensing Strive published by OSS institutions for and on behalf of ministers, heads of institutions, governors, or regent/mayor to perpetrator Venture through electronic systems. The government has encouraged licensing, particularly through the form of NIB, since the enactment of Law No. 11 2020. It is also based on Government Rules Number 6 of 2021 Regarding Licensing Implementation Doing Business in Regions and Regulations. Government Number 5 of 2021 on Risk-Based Licensing Implementation jo. PP No. 24 Years 2018 on Integrated Electronic Licensing Services. Even if the basic principle, purpose, and even technical application of such permissions have been poured normatively, it turns out that there are still business actors at the MSME level who do not fully understand. Based on the findings of field searches conducted by the Faculty of Law, Wijaya Kusuma University Surabaya, particularly in the region Kolursari Subdistrict, Subdistrict Bangil - Pasuruan District, obtained Data from a sample of 20 perpetrators' businesses, 40% of which still do not have a business license in the form of a Business Identification Number (NIB).

The lack of NIB among business actors is due to a lack of digital readiness among business actors. The main barriers to MSMEs adopting digital technology are limited internet access and a lack of knowledge in registering administration such as business licensing in OSS and NIB online. Several indicators, including indicators of optimism, competence, security, and comfort, are used to assess these MSMEs' Digital Readiness Index. The Digital Readiness Index of MSMEs has an average value of 3.6, as shown in the diagram below.



Source: Katadata, 2020

Several relevant previous studies are research by Sugiri (2020) it is stated that the success of the policy in saving MSMEs due to the pandemic is a short-term strategy through digital services and a long-term strategy through the design of MSMEs development, digital technology development, and modern MSMEs business development. Therefore, the role of digital in MSMEs activities is very much needed during the pandemic. Furthermore, in research by Shafi, Liu, and Ren (Shafi et al., 2020), stated that the

MSMEs strategy during the pandemic in Pakistan, MSMEs actors must continue to make new breakthrough in various circumstances. Especially during the pandemic, special plans are needed to manage MSMEs, one of which is by using digital technology. Then, in the research by Arianto (2020) stated that digital transformation of MSMEs during a pandemic became an alternative to save the MSMEs sector in order to be still exist.

Seeing the background of the introduction and previous research, the focus of the author's research is to find out and analyze the "Reduction of Digitalization Policy in Indonesian MSMEs and Implications for Sharia Economic Development."

## Literature Review

### Definition of MSMEs

According to the 1945 Constitution, it was then strengthened through tap MPR NO. XVI/MPR-RI/1998 concerning Political Economy in the framework of Economic Democracy, Micro, Small, and Medium Enterprises must be empowered as an integral part of the people's economy with a strategic position, role, and potential to realize an increasingly balanced, developed, and equitable national economic structure. (Suci, 2017)

Article 1 of Law Number 20 of 2009 concerning Micro, Small, and Medium Enterprises reveals that the definition of MSMEs is as follows:

1. Micro Enterprises are productive businesses owned by individuals and/or individual business entities that meet the Micro Enterprise criteria outlined in this Law.
2. Small Business is defined as a productive economic business that operates independently and is carried out by an individual or business entity that is not a subsidiary or a branch of a company that is owned, controlled, or is a part of, either directly or indirectly, a Medium Enterprise or a Large Business that meets the criteria for Small Business as defined in this Law.
3. Medium Enterprises are self-sustaining productive economic enterprises carried out by individuals or business entities that are not subsidiaries or branches of companies that are owned, controlled, or are part of, either directly or indirectly, Small Businesses or Large Enterprises with the amount of net worth or annual sales proceeds specified in this Law.
4. Large Enterprises are productive economic enterprises carried out by business entities with a greater total net worth or annual sales proceeds than Medium Enterprises, which include state-owned or private national enterprises, joint ventures, and foreign businesses operating in Indonesia.
5. The Business World is a Micro, Small, Medium, or Large Business that conducts economic activities in Indonesia and is headquartered in Indonesia.

### The Concepts of sharia economy

Islamic economic theory is not a new science or something fundamentally different from existing economic theory (Susanti, 2020). History demonstrating that Islamic thinkers are inventors, or laying the groundwork for all fields of science In terms of economics, Muslim economists acknowledge that they read extensively and were influenced by the writings of Aristotle (322-367 BC), a philosopher who wrote extensively on economic issues. However, they continue to use the Qur'an and hadith as primary sources when developing theories Islamic finance (Fikry & Ghozali, 2022). Islamic teachings place a high value on the subject of nobody can deny that the economy is a reality. Because almost all implementations of Islamic teachings are hampered by financial constraints. In other words, there is no Islamic teaching that does not require economy, such as prayer, fasting, hajj, or zakat.

The development of this religious value-based economy plays a role in the construction of society, which is not centralistic in nature, so that resources and economic participation do not accumulate in certain groups (Triasari & Zwart, 2021). Furthermore, one of the sources of law in Sharia, including *muamalah*, is the local people's good customs and wisdom ('*urf shahih*'), in addition to the Qur'an, *sunnah*, *ijma'*, *qiyas*, *istihsan*, *mashlahah mursalah*, and so on. '*Urf shahih* is a prudent, well-judged custom (custom)

that is the result of a series of repeated social actions and continues to undergo reinforcement, recognition of common sense, and does not deviate from Sharia principles. (Azizah & Muhfiatun, 2018)

In terms of economic issues, Islam can be considered the focal point for the implementation of Islamic teachings. As a result, God desires that Muslims pay close attention to facilities and infrastructure that are conducive to economic progress. In this context, Allah employs two strategies to encourage people to participate in the economy, namely direct and indirect means. The Islamic economic system aims to regulate economic activities in order to achieve a standard of living worthy of all individuals in society. Economic system Islam, through its activities and customs, is dynamic and fair in the distribution of income and wealth by granting every individual the right to a decent livelihood and glory both in this world and the next. (Pramudya, 2018)

### **The concept of halal certification**

Certification can be interpreted as a set of conditions that must be met during the food quality control process, which can be carried out in laboratories or in other ways in accordance with technological advancements. This quality certification is enforced to provide assurance to the public that the food purchased has met certain quality standards, without abdicating food producers' responsibility to comply with existing legal policies. Halal is derived from the Arabic word *halla*, which means "loose" or "unbound." The word *halalan* means "things that can and can be done because they are free or are not bound by the provisions that prohibit it," or "everything that is free from worldly dangers and *ukhrawi*." (Wahyuningrum et al., 2017)

The provision of halal information about whether a product is halal is important for Muslims because it concerns Sharia implementation. It is preferable if the Indonesian people, who are predominantly Muslim, have the right to know whether a product is halal or not. The definition of halal is in Islamic law as one of the terms, which is especially a guideline and demand for Muslims themselves in consuming food and drink. Halal certification is the process of certifying products or services as pronounced by the sharia law. In providing the assurance to Muslim consumers on the halal quality, a system of the halal certification and verification is seen to be a key element (Noordin et al., 2014). According to the conceptual view, the halal certification process is part of a complex system that includes not only the halal applicant and the halal certifier, but also other agencies such as the Ministry of Agriculture, the Ministry of Health, the Chemistry Department, and the Ministry of Domestic Trade. This indicates that the certification system involves a number of key stakeholders who may have an impact on the certification process's efficiency. One of the prerequisites for the success of the Halal brand is Halal food certification. (Al-shami & Abdullah, 2022)

The requirements for halal certification for food products explicitly include: materials and manufacturing processes, ingredients, their sources, halal certification from the original producer and country of origin the product specifications, processes, and operations, as well as the premises, must be declared everything is halal. The halal concept, which applies to the form, origin, and processing of edible goods, covers the entire food chain. Utensils, equipment, and machinery must be clean and free of haram materials, according to Islamic law (Henderson, 2016). Products must adhere to the listed food and hygiene regulations, food safety acts, and all Islamic and international standards. Sharia principles as published by the government, combined with demonstrated sanitary manufacturing practices for Halal certification, as well as these nine mandatory requirements for processes, products, factories, and sanitation systems, records, facilities, training, supervision and monitoring, and worship tools must all be inspected and maintained. Demonstrated satisfactorily, in conjunction with objective evidences of relevant supporting documents material certifications for food products. (Shariff & Lah, 2014)

### **Method**

This research is a normative legal research. The research approach is based on applicable laws and regulations (Saputra & Emovwodo, 2022). The data of this study were obtained from the results of

analyzing the provisions of laws and regulations, journals, and relevant articles (Hartini, 2022). Primary legal material is an authoritative legal material that has the authority so that it has binding legal force, including Law Number 11 of 2020 concerning Job Creation. (Dian & Jenvitchuwong, 2021)

## Results and Discussion

### Reduction of Digitalization Policy in Indonesian MSMEs

The Job Creation Bill's legal political direction, namely the formation of new laws with the concept of omnibus law for regulation simplification by trimming, simplification, and deregulation of laws and regulations related to job creation (Matompo & Izziyana, 2020). MSMEs are regulated in Law Number 20 of 2008 concerning Micro, Small and Medium Enterprises. One of the bad public services regarding MSMEs is in terms of complicated licensing flows that take a long time and cost quite a lot. This will hamper the pace of investment and affect economic growth (Castro & Scartascini, 2015). In the Job Creation Law, there are a number of provisions that have been amended in the MSME Law, including the MSME Criteria, Single Database, Integrated MSME Management, Partnerships, Ease of Business Licensing, and Ease of Financing Facilities and Fiscal Incentives (Le et al., 2020). The government intends to prioritize the MSME as the leading sector through the Job Creation Law. This is because a large MSME's contribution to the economy must be accompanied by maximum attention to MSME development. The government provides MSMEs with access to support, ease of doing business, protection, and empowerment through the Job Creation Omnibus Act (Evendia et al., 2022). One of the considerations in the passage of the Job Creation Law (UU) was to provide MSMEs with protection and convenience by expediting permit registration. The Job Creation Law aims to reduce or change the existing bureaucracy in order to regulate the existence of legal protection for MSME business actors.

There are several points in the Employment Creation Act that are in favor of MSMEs. First, the Job Creation Act provides easy market access, financing, licensing, business development, and supply chains. Second, the ability of MSMEs to create job opportunities is getting bigger, because the problem is about employment (Soewardi & Ananda, 2015). Third, it can get convenience to optimize the potential of local startups. Fourth, it can provide protection and strengthening in the business competition climate. Fifth, MSE activities can be used as credit guarantees, so they are not required to use assets. Sixth, it can provide ease of doing business (Rodrigues & Mendes, 2018). The Job Creation Act revises the MSME Act to provide facilities for MSMEs, namely ease of licensing, access to financing, and protection for MSMEs, this is explained in Articles 87 to 104 of the Job Creation Act.

Then the Job Creation Act requires the Government to provide assistance to the business world. To be able to compare the ease of management for MSMEs before and after the birth of the Job Creation Act. Law Number 11 of 2020 comes with several changes regarding procedures, financing, business license extension, mentoring and coaching, and risk-based licensing. This proves that the various facilities provided make MSMEs able to operate properly (Huong & Cuong, 2019). MSMEs are protected through the ease of obtaining business licenses. Because regulatory arrangements with licensing dimensions will make doing business easier, increase quality investment, and boost MSE productivity (Madelene et al., 2022). The government has set a target of 30 million MSMEs using the digital ecosystem by 2024. During the pandemic, there has been increasing in number of business actors transitioning to the digital ecosystem, which has reached 16.4 million MSMEs. The number of digital transaction increased to 26% or 3.1 million transactions per day (Dewi & Mahendrawathi, 2019). This is an opportunity for MSMEs to fill the digital market. Implementing regulations of the Job Creation Act, there are changes regarding licensing regulations for conducting business. Since July 2, 2021, there has been an OSS-RBA system for electronically integrated business licensing applications in accordance with the Letter of the Minister of Investment/Head of Investment Coordinating Board (ICB) Number 1342/A.1/2021 (Rojo Ramírez et al., 2011). Business licensing service through the OSS system also gets a lot of positive responses from the community because licensing becomes faster, easier and more efficient with this system. (Juniarti et al., 2019)

The world is currently confronted with a twin disruption phenomenon consisting of disruption caused by technological advancement and information communication as well as disruption caused by climate change, which is also incorrectly caused by the Covid-19 pandemic. Efforts to maximize the use of digital technology are not only focused on licensing. Currently, Bank Indonesia is also implementing digitalization of the promotion of MSME products, both MSMEs fostered and partners that have been managed in an electronic catalog at the virtual exhibition of Indonesian Creative Work 2020 (ICW). Maximizing digital technology, especially in the pandemic era, provides a bright way for MSMEs to dare to rise, survive, and develop. This will be in line with increasing the capacity and quality of MSME marketing in order to support the recovery and growth of the Indonesian economy, which was hit recently due to the pandemic. (Rakhmadhani et al., 2022)

As a result, after the enactment of the Job Creation Law, the transition of the transaction system directly into a digitalization system has made people's lifestyles and attitudes increasingly change. Therefore, MSME economic actors are more productive in running their business. With these changes, various economic innovations during the pandemic were born, known as the digitization of MSMEs. (Purnawan et al., 2019)

### **Implementation of halal certification after Law Number 11 of 2020 and Implications for Sharia Economic Development**

Indonesia has a significant Muslim population. According to Indonesian population statistics, 87.18% of the 237,641,326 people convert to Islam. This large Muslim population undoubtedly influences the high demand for halal products. This has resulted in an increase in administrative submissions for halal certification (Hilal et al., 2020). In terms of laws and regulations, halal product guarantees are constantly changing and being updated. As a country with a Muslim majority, protecting the halalness of a product is both an individual right and a right as an Indonesian citizen. Regulation is essential as a societally accepted standard of quality and behavior with the goal of protecting the public interest. The recognition of a halal product is handled by the state with the Halal Product Guarantee Organizing Agency (BPJPH) and in collaboration with the Indonesian Ulema Council (MUI) to provide written halal fatwas, especially since the enactment of the Halal Product Guarantee Law (JPH) and the Government Regulation of the Republic of Indonesia Number 31 of 2019 concerning Regulations on Halal Product Guarantee. Article 4 of the JPH Law states that "Products that enter, circulate, and are traded in the territory of Indonesia must be halal certified," with halal certification being mandatory as a legal norm. This is a sign for consumers (Muslims) to ensure the source of food products based on the presence or absence of halal labels as a form of legal protection for consumers, their families, and the community or benefit to the people.

Halal product process (PPH) is an activity that ensures the halalness of products by providing materials, processing, storage, packaging, distribution, sales, and product presentation (Widayat et al., 2020). According to the Global Islamic Economy (GIE) report for 2019/2020, Indonesia's overall ranking has risen to fifth from tenth the previous period. The Islamic financial sector and halal tourism are backing this rating upgrade. The government then established the Halal Product Assurance Organizing Agency to issue halal certification (BPJPH). The BPJPH is a body established under the Ministry of Religious Affairs. According to Law No. 33 of 2014 on Halal Product Guarantee, products circulating in Indonesia must be guaranteed halal; thus, BPJPH has the duty and function of ensuring the halalness of products entering, circulating, and trading in Indonesia. It became clearer and emphasized the production chain from business actors to consumers and consumers to consumers after the JPH Law was enacted. Transitional provisions are specified in the JPH Law for all laws and regulations governing the guarantee of halal products, which are declared to remain valid as long as they do not conflict with this law.

**Table 1. Comparison of Halal Certificates Before and After the JPH Law's Enactment**

<b>Before the Halal Product Guarantee Act</b>	<b>After the Halal Product Guarantee Act</b>
has a Voluntary nature	has a mandatory nature

Indonesian Ulema Council (MUI) as the main institution authorized in the halal certification process	Halal Product Assurance Organizing Agency (BPJPH) as the main institution authorized in the halal certification process
Certification is carried out by nongovernmental organizations or nongovernmental organizations	Certification is carried out by Government Agencies under the Ministry of Religious Affairs
LPPOM MUI as an institution that conducts audits or inspections of halal products	Halal Inspection Agency (LPH) as an institution that audits or inspects halal products
Certificate valid for 2 years	Certificate valid for 4 years
Does not yet have strong legal legitimacy	Have a strong guarantee of legal certainty. There are sanctions, both criminal and fines for business actors who do not maintain the halalness of products that have been certified halal
Halal auditors can come from educational backgrounds that are not in accordance with the field of audit	Auditors must come from appropriate scientific backgrounds, namely biology, pharmaceuticals, food, biochemistry, industrial engineering, and chemistry
Short certification flow: Business Actors – LPPOM MUI – MUI	Longer certification flow: Business actors-BPJPH-LPH-BPJPH-MUI

Source: processed by the author

There are changes related to halal certification following the enactment of Law Number 11 of 2020 concerning Job Creation, namely:

- Halal product process for MSME business actor units with a halal mechanism carried out by BPJPH is facilitated by not having to pay the process fee (Article 4A).
- The requirements for becoming a Halal Auditor have been increased.
- The halal product process is only subject to administrative sanctions for business actors who are required to separate the location, place, and tools used in the process.
- The application process for halal certification is sped up to 1 (one) working day.
- The extension of halal certification does not require a Halal Fatwa trial as long as it does not change the process or composition of halal products.

Article 44 paragraph (2) of the JPH Law, as amended by Law Number 11 of 2020, states that there is no charge for halal certification applications submitted by Micro and Small Business Actors. MSME actors can increase added value (selling point) and competitiveness (competition) in doing business with the ease of obtaining halal certification. Halal is an important consideration for MSMEs, particularly in terms of expanding their market share. The Halal Assurance System for MSMEs will assist them in obtaining halal legality in the form of halal certification for their products (Wahyuni & Handayani, 2022). After the existence of the Job Creation Act, there will be convenience in protecting MSMEs to partner, cooperate with industry, obtain financing facilities, intellectual property rights, legal assistance, as well as procurement of goods and financial system services. (Otusanya, 2011) This extends to the issuance of halal certificates, which has increased in line with stronger regulations and the impact of digitalisation over the last five years, according to data. Approximately 90% of halal certified businesses operate in the halal food sector. In addition, the number of halal certified businesses in the pharmaceutical and cosmetic sectors has increased year over year by an average of 46.35% and 36.76% respectively. Progressive growth was triggered by phase II mandatory halal certification requirements that came into effect on 17th October 2021 for medicaments, cosmetics, and consumables. In addition, Government Regulation Number 31 of 2021 has accelerated halal certification services via the Halal Information System (SiHalal) developed by the Halal Certification Agency (BPJPH), thereby streamlining the certification process, expanding accessibility



as well as increasing transparency and data accuracy. The significance of halal certificates in the present Halal certification adds value to the halal industry ecosystem, ensuring the quality of halal products and increasing global competitiveness. (Indonesia, 2021)

The JPH Law can be used as a state directive in halal product legal policy. Then comes Law Number 11 of 2020, which provides consequences for changes to the provisions for halal product certification used by the community. As stated in Article 48 of this law, several provisions in Law Number 33 of 2014 concerning Halal product guarantees change several things that can make it easier for MSME business actors to obtain halal certificates for their products that refer to the BPJPH's halal standards. The enactment of Law Number 11 of 2020 as an improvement in the implementation of a more effective JPH, the determination of halal status remains with the MUI Halal Fatwa Commission, and MSMEs benefit from halal certification convenience.

### **Barriers to the Implementation of the Digitization of MSME Management**

The COVID-19 pandemic has an extraordinary impact on various aspects of life. Not only has an impact on the health sector, the COVID-19 pandemic has also changed the economic structure of a country, especially in developing countries. Developing countries have difficulty implementing an effective economic stimulus (Saleh et al., 2015). Economic growth decreased to negative 2.8%, it can be said that it was dragged up to 6% compared to the previous period. However, as one of the economic sectors, MSMEs are able to survive during an economic crisis. During the COVID-19 pandemic, there was a decrease in turnover of more than 30% experienced by 63.9% of affected MSMEs. Nevertheless, 62.6% of MSMEs are adamant that they can get through more than one year of crisis due to the pandemic. Moreover, 68% of business actors are optimistic about their business conditions if the adaptation of new habits in the new normal concept is implemented. (Rahmah, 2015)

The changes in all activities that use the internet can help MSMEs rise from the pandemic period. MSMEs are the main sector of the world economy that provide income and job creation for many people around the world (Kuswanto et al., 2015). Data obtained from the Ministry of Cooperatives and SMEs shows that MSMEs in Indonesia have been able to accommodate 119,562,843 (96.92%) workers. By promoting the improvement and utilization of technology by MSMEs, such as through training, financial and technical assistance, the government can maintain the creation of higher productivity jobs (Gunadi, 2015). The existence of the Job Creation Act substantially provides convenience and efficiency in digitalization, integrates MSMEs in the Global Value Chain, and supports MSMEs in increasing their existence in the economic arena. (Bann et al., 2015)

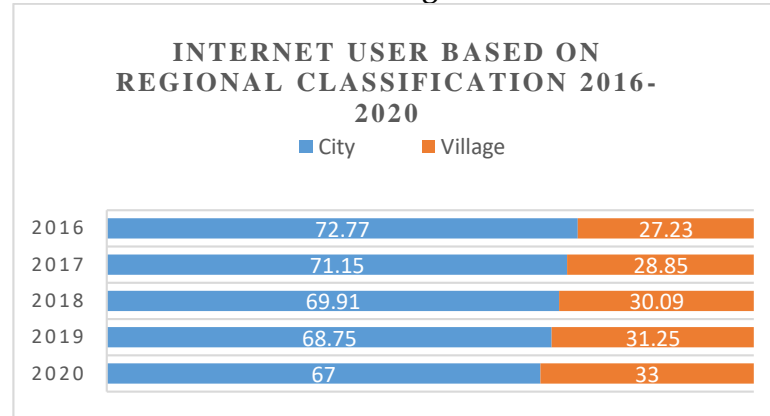
The existence of the Job Creation Law is able to improve services so that they are more efficient and easier, through the application of Norms, Standards, Procedures, and Criteria (NSPC) as well as with an electronic system that can encourage regulatory reform and de-bureaucratization. Some of the obstacles faced by MSMEs in their development are low productivity levels, limited access to technology, capital, information and marketing, and the low quality of MSME management that is not in accordance with applicable legal regulations. As many businesses that have been running in the future have caused problems, legality is a basic factor for business continuity. This legality factor is represented by the possession of a business license (Novriansyah & Harahab, 2021). MSMEs' legal aspects have become critical. Much less is required to boost MSMEs' international competitiveness. One of the capitals A Must Have to Achieve Classy MSMEs is strengthening legality for MSMEs.

Causes of low licensing business for MSMEs, namely, starting from it is still unclear which regulations precisely leads to a tug-of-war intermediate licensing authority Local Government and Government navel. Second, the sociological aspect of a concerned and weak society in comprehending the essence of the licensing attempt. Includes perceived complexity, so that if you want to get out of the zone of complexity managing permits independently, you must be willing to involve third parties at certain costs.

In applying digital technology, MSMEs in Indonesia still experience limitations due to uneven access to remote areas in Indonesia. Internet users in Indonesia in 2020 amounted to 73%. However, in fact there

are still quite significant gaps (Arianto, 2020). Of course this is an obstacle in developing MSMEs, especially for areas that have difficulty getting access to technology.

**Chart 3. Internet User based on Regional Classification 2016-2020**



Source: Statistics Indonesia, National Socio-Economic Survey (2020)

Internet users in city have increased every year, on the contrary, in village it has decreased. Data shows that in 2019 internet users in city were 71.15% which increased in 2020 to 72.77%. While in village in 2019 it was 28.85%, then in 2020 it was 27.23%. This proves that internet access is still not evenly distributed by the community, especially in village. Then, difficulties in developing the digitization of MSMEs from the cultural sector are caused by the difficulty of building public trust, limited human resources in the digital world and the increasing risk of fraud being used by certain parties. Technological infrastructure that is still uneven is a big challenge in the implementation of E-Government. (Ariani, 2017)

In addition, Indonesia is currently still experiencing complex and many regulations. Regulations that still do not support the creation and development of businesses even tend to be restrictive. Especially after the Constitutional Court's decision No. 91/ActRegulation-XVIII/2020 clearly gave the government a two-year time limit. However, the Constitutional Court's decision does not explain the implementation context for the implementing regulations of the Job Creation Act. Therefore, the obstacles to the management of MSMEs are the derivative rules of the Job Creation Act, namely Government Regulation No. 7 of 2021 and Government Regulation No. 5 of 2021, which if implemented, can result in legal defects. Meanwhile, in its management, the most difficult obstacles faced by MSME business actors are related to capital, access to marketing, corporate financial management, and the focus of businesses that are still multi-business. (Mahy, 2022)

In this era of disruption, it is important to increase development for MSMEs through digitizing the management. This of course will play an important role in economic recovery, especially during a pandemic. As an effort to digitize MSMEs, of course, two aspects must be balanced, namely related to human resource capacity and support for market access policies for MSMEs. Efforts to improve the development of MSMEs in digitizing their management need to strengthen digital literacy through various media channels that are easily accessible and reachable to MSMEs. The existence of digital capabilities will be able to transform every activity through internet technology devices. Moreover, it is important to improve legal understanding for business actors so that the business process becomes easier and more secure. This is of course related to the licensing process to create a business entity, drafting agreements, taxes and many other things. There is a need for legal knowledge for business actors and compliance with every predetermined regulation. (Luh et al., 2021)

## Conclusion

Regulation remains one of the impediments to the ease of providing business licensing services. The main issue is regulatory disharmony, norm conflicts, and conflicts of authority both horizontally (between

ministries/institutions) and vertically (central with regional); and insufficient national standardization in the form of norms, standards, procedures, and criteria (NSPK) at the governance level licensing in the regions. Deregulation is a critical upstream step in integrating the regulation of all types of licensing and the simplification of business processes. This arrangement is an excellent first step toward modernizing the process of providing licensing services to the community and business actors who have been perceived as impeding business activities. The licensing for MSMEs after the enactment of Law Number 11 of 2020 concerning Job Creation becomes simpler, efficient, concise, fast, and cost-effective compared to before the existence of the Job Creation Act. In the digital era, MSME licensing becomes more efficient, namely through the OSS-RBA. The world is currently confronted with a twin disruption phenomenon consisting of disruption caused by technological advancement and information communication as well as disruption caused by climate change, which is also incorrectly caused by the Covid-19 pandemic. During this pandemic, there has been a doubling of the number of business actors transitioning to the digital ecosystem. This is a big opportunity for MSMEs to be able to meet the digital market that has been very wide open.

MSMEs are present in the Islamic economy's development, with the possibility of managing MSMEs in the technology-based halal industry. Several forefathers of the Indonesian halal industry began their businesses in the fields of digital economy, retail trade, and information dissemination to rural communities. Article 44 paragraph (2) of the JPH Law, as amended by Law Number 11 of 2020, states that there is no charge for halal certification applications submitted by Micro and Small Business Actors. MSME actors can increase added value (selling point) and competitiveness (competition) in doing business with the ease of obtaining halal certification. However, behind this convenience there are obstacles experienced in the form of the low quality of human resources in digitizing, difficult to gain public trust, the management of MSMEs that are not in accordance with applicable legal regulations because Indonesia is currently still experiencing complex and many regulations and difficulties in obtaining capital, access to marketing, corporate financial management, and business focus that is still multi-business. In addition, it is also necessary to have legal knowledge for business actors and compliance with every predetermined regulation. The process of improving licensing services must also be carried out in an integrated manner, across agencies and sectors, and coordinated by a single government agency with the competence and authority to take policy decisions, reduce rules of procedure, and institutionalize government.

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