

## Global Issue Pandemic and Technology Business: What The Role of Financing MSMEs an Islamic Perspective Theory?

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### ABSTRACT

**Purpose:** This research aims to analyze the impact of the global pandemic on the operations, sustainability, and growth of Micro, Small, and Medium Enterprises (MSMEs) and examine the role of MSME financing from the perspective of Islamic economic theory as an instrument to support the recovery and sustainability of MSME businesses during the pandemic.

**Design/Methodology:** This research employs a qualitative approach to explore the impact of the global pandemic on micro, small, and medium enterprises (MSMEs) and the role of technology and Islamic financing. The study involves 15 MSME owners and managers, utilizing semi-structured interviews and focus group discussions for data collection.

**Findings:** The research found that the global pandemic caused a significant decline in MSME revenues and activities, especially in Bandar Lampung City and West Lampung Regency with a 30-40 percent decline. Key factors include decreased demand, supply chain disruptions and social restrictions. While some MSMEs are turning to digital technology to adapt, many rely on self-financing rather than bank loans. Islamic finance principles have the potential to support the recovery of MSMEs, but the low utilization of Islamic financing points to the need to improve Islamic finance literacy and accessibility.

**Practical implications:** Based on the finding that MSMEs that quickly adopt digital technologies are able to survive better during the pandemic, the government and relevant agencies should develop more widespread and affordable digital literacy programs. These programs should be designed to improve the technological skills of MSME players, including the use of e-commerce, digital marketing and digital financial platforms. This will help MSMEs to be more competitive and flexible in the face of market changes.

**Originality/Value:** This research is unique because it combines an Islamic perspective, particularly in Islamic financing, with an analysis of business technology in the midst of a global crisis such as the pandemic.

**Keywords:** Technology Business, UMKM, Financing, Islamic Prespective

Received: 15/08/2024

Accepted: 24/02/2025

Published: 25/03/2025

### A. INTRODUCTION

Since the end of 2019, the global pandemic has significantly impacted the world economy, including the Micro, Small and Medium Enterprises (MSMEs) sector. As the backbone of the economy in many countries (Faiezah et al., 2022). MSMEs are under tremendous pressure due to supply chain disruptions, decreased demand, and limited capital (Iskandar et al., 2021). In response to these difficulties, the adoption of business technology has increased notably. A survey by the International Trade Centre (ITC) in 2021 found that 70% of MSMEs used digital tools for online sales and marketing, compared to only 30% before the pandemic, while 60% adopted remote working technologies. These digital transformations have

enhanced operational efficiency and expanded market reach (Haji-Othman Sultan Abdul Halim Mu et al., 2021).

However, financial constraints are still a major problem for MSMEs in adopting technology (Agustin et al., 2021). Islamic finance, which has financing based on sharia principles, offers a potential solution to support the sustainability of MSMEs in the face of this crisis. Islamic financing based on the principles of fairness, partnership and social responsibility can be an effective tool in helping MSMEs access capital without being burdened by usury (interest) which can add to financial stress (Djalaluddin et al., 2023). Islamic financing products such as mudharabah (business partnership), musyarakah (profit sharing), and murabahah (sale and purchase with a profit margin) are designed to provide fair and transparent financing solutions. In addition, the concepts of zakat, infaq, and sadaqah in Islamic finance also play an important role in supporting small and micro businesses that need financial assistance without having to pay back in the form of interest or debt. (Rukti Tanaya & Ekyawan, 2020). However, the challenges faced in implementing Islamic financing in MSMEs are the low level of Islamic financial literacy among MSME players and the lack of financial infrastructure that supports the implementation of Islamic financing.. (Rai & Kayadibi, 2022).

Nevertheless, challenges persist due to the low level of Islamic financial literacy among MSMEs and inadequate financial infrastructure (Rai & Kayadibi, 2022). To ensure the resilience and sustainability of MSMEs in the post-pandemic era, it is necessary to strengthen the role of Islamic finance through targeted policies and improved financial accessibility. In addition, businesses must remain vigilant against ongoing uncertainties, including supply chain disruptions, economic volatility, and emerging risks such as cyberattacks and climate events, which require proactive risk management strategies (Abdulkareem et al., 2022).

Global risks are not only related to the pandemic, as highlighted in the World Economic Forum 2021 report. Cybersecurity failures, especially in the financial sector, pose a significant threat to economic stability and can disrupt important financing channels for Micro, Small and Medium Enterprises (MSMEs) (Hossain et al., 2024).

Islamic financing remains particularly relevant in times of crisis due to its foundational principles of risk-sharing, ethical investment, and social responsibility. Unlike conventional financing, which often involves fixed interest rates and speculative activities, Islamic finance promotes equitable partnerships where both risks and rewards are shared. This system reduces the financial burden on MSMEs during downturns, as repayments are tied to the actual performance of investments rather than fixed interest payments (Djalaluddin et al., 2023).

Several studies that discuss related to the global pandemic issue and business technology that will affect the role of the development of micro, small and medium enterprises (MSMEs) such as those conducted by (Agustin et al., 2021; Faezah et al., 2022; Haji-Othman Sultan Abdul Halim Mu et al., n.d.; Iskandar et al., 2021; Pengajian Islam et al., 2021). Where the results show that there is a very significant influence on the economy and finance caused by global issues such as a pandemic. Further research conducted by (Agustin et al., 2021; Djalaluddin et al., 2023; Hassan et al., 2021; Rai & Kayadibi, 2022; Rukti Tanaya & Ekyawan, 2020).

The difference between the research conducted with several studies presented above lies in the addition of discussion of issues that will affect the role of financing micro, small and

medium enterprises, namely global problems / issues related to business technology, where business technology currently has a great influence on business development, and if there are problems in business technology it will cause problems in the economy of a country. With the difference in research, it will add to the excitement in research, from the use of the theory that will underlie the research, namely the The Technology Acceptance Model (TAM) as it provides a framework for understanding how micro, small, and medium enterprises (MSMEs) adopt and utilize technology, especially in the context of financing during the COVID-19 pandemic. During this crisis, many MSMEs faced significant challenges, including operational disruptions and difficulties in accessing financial resources. The adoption of technology, such as digital financing platforms and e-commerce solutions, became essential for their survival and adaptation. TAM posits that two key factors-perceived usefulness and perceived ease of use significantly influence the acceptance of technology. For MSMEs, perceived usefulness refers to the belief that adopting digital financing solutions will enhance their ability to secure funding and manage cash flow effectively. If business owners recognize that these technologies can provide access to Sharia-compliant financial products, which align with Islamic principles of ethical investment and risk-sharing, they are more likely to embrace them. Similarly, perceived ease of use is crucial; if MSMEs find digital financing platforms user-friendly and accessible, they are more inclined to adopt them, particularly if they have limited technical expertise. By applying TAM, this research can identify barriers to technology acceptance and explore how Islamic financing solutions can be tailored to meet the specific needs of MSMEs. Understanding these dynamics is vital for policymakers, financial institutions, and technology providers aiming to support MSMEs in navigating the challenges posed by the pandemic. Ultimately, TAM serves as a valuable theoretical framework for examining the intersection of technology, financing, and MSME resilience, highlighting the critical factors that influence technology adoption and informing strategies to enhance the sustainability and growth of MSMEs in these challenging times.

This theory explains the behavior of end-users of an information technology offered using several wide variations and user populations to determine the influence of external factors on psychological foundations. The psychological foundations used include belief, attitude, intention, and user behavior relationship. In the context of MSMEs facing crises, Islamic financing is particularly suitable due to its emphasis on ethical practices, risk-sharing, and community support. Unlike conventional financing, which often imposes interest and rigid repayment schedules, Islamic financing promotes a partnership approach where both the financier and the entrepreneur share risks and rewards. This alignment of interests can alleviate the financial burden on MSMEs during challenging times, fostering a more sustainable business environment. Additionally, the ethical principles inherent in Islamic finance encourage investments in socially responsible projects, which can enhance community resilience and support the overall recovery of the MSME sector during crises.

## B. LITERATURE REVIEW

In the context of MSMEs, the Technology Acceptance Model (TAM) theory (Waldan, 2022) can be used to understand how small and medium enterprises accept and adopt relevant technologies to support their business operations. PU and PEOU factors play an important role in determining whether MSMEs will utilize technology, such as digital financial applications,

e-commerce platforms, or cloud-based inventory management systems. If MSME players believe that these technologies can improve efficiency, expand market reach, or optimize financial management, they are more likely to adopt them. (Hidayah et al., 2021).

The relationship between TAM and Islamic-based MSMEs is particularly significant, as Islamic principles emphasize ethical business practices and community welfare. When Islamic MSMEs evaluate technology adoption, their perceptions of usefulness and ease of use are often influenced by how well these technologies align with Islamic values, such as transparency, fairness, and social responsibility. For instance, if a digital financial application is perceived as facilitating ethical transactions and enhancing financial inclusion, Islamic MSMEs are more likely to adopt it.

Moreover, the integration of technology in Islamic MSMEs can enhance operational efficiency while adhering to Sharia-compliant practices. Technologies that simplify compliance with Islamic finance principles, such as risk-sharing and profit-and-loss sharing, can further increase the perceived usefulness of these tools. Therefore, TAM provides a valuable framework for understanding how Islamic MSMEs assess and embrace technology, ultimately contributing to their resilience and growth in a competitive market. Financing for MSMEs, especially in terms of technology adoption, is closely related to TAM. Financing provides the resources needed for MSMEs to implement new technologies. Here are some of the ways in which TAM interacts with the role of financing (Nasrul et al., 2021).

Access to Financing for technology MSMEs can adopt technology, they often need capital to purchase hardware, software or digital services. Available financing, whether through conventional or Islamic financial institutions, allows MSMEs to access this capital. If MSME players perceive that the technology they purchase through such financing will be useful (PU) and easy to use (PEOU), then they are more likely to make an investment decision in the technology. (Ramli et al., 2023).

Financial literacy and technology PEOU of digital financial technologies such as mobile banking or financial management applications can be improved through financial literacy and training. MSMEs that have access to financing aimed at training or technology skills development will be more confident in adopting new technology, as they feel more capable of using the technology with ease. (Othman et al., 2022).

Evaluation of risks and benefits In deciding to use financing for technology adoption, MSME actors consider the associated risks and benefits (Santoso, 2020). TAM helps explain that if MSMEs believe technology will provide significant benefits to their business (PU), they are more likely to accept the risks associated with financing, such as debt burden or payment obligations. (Majid & Nugraha, 2022.).

The pandemic has had wide-ranging and profound economic impacts around the world. According to a report from the IMF (2020), the pandemic caused the worst global recession since the Great Depression, with significant declines in economic output, increases in unemployment, and disruptions in global supply chains. The pandemic resulted in a sharp decline in economic activity, especially in sectors such as tourism, manufacturing, and international trade. In addition, developing countries have been more severely affected due to limited resources to deal with this health and economic crisis (World Bank, 2020).

For instance, studies by (Iskandar et al,2021) and (Hidayah et al,2021) highlight that MSMEs faced significant challenges, including reduced consumer demand and difficulties in accessing financing. However, while some studies emphasize the negative impacts, such as business closures and layoffs, others point to the resilience and adaptability of MSMEs, noting that many have successfully pivoted to digital platforms and e-commerce to sustain operations.

Additionally, previous research has shown varying degrees of technology adoption among MSMEs, with some studies indicating that businesses with prior digital capabilities were better positioned to navigate the crisis. For example, a study by (Faezah et al,2022) found that MSMEs that had already integrated technology into their operations experienced less disruption compared to those that relied on traditional business models. This contrasts with the findings of the current study, which suggests that while some MSMEs adapted through digital transformation, many still struggled due to a lack of resources and support.

In recent years, technology has played a pivotal role in transforming businesses across the globe. The adoption of digital technologies such as artificial intelligence (AI), big data analytics, cloud computing, and the Internet of Things (IoT) has enabled companies to streamline operations, improve customer engagement, and innovate rapidly. According to a report by McKinsey & Company (2020), companies that embraced digital transformation prior to the COVID-19 pandemic were better equipped to handle the challenges posed by the crisis. The pandemic accelerated the shift toward digital business models, as remote work, online commerce, and digital communication became essential for survival (Hermawan Adinugraha et al., 2023).

### C. METHOD

This study employs an analytical observational design, specifically a case-control design (Briley et al., 2019). A qualitative approach is adopted (Alonso et al., 2020), which involves gathering and presenting data as words or sentences (Taskinsoy, 2021). Qualitative research places a high emphasis on the quality of data, which leads to the exclusion of statistical analysis (Singarimbun, Peter Hagul, and Chris Manning. 2008 In Masakazu et al., 2023). The research is classified as descriptive aiming to provide an unbiased account of a particular situation (Ozturkcan et al., 2022).

Based on its location, this study is categorized as a case study (Kamaludin et al., 2021) using field study approach to collect data through involves gathering data and information by using various materials discovered in the field(Hoffman et al., 2020).The study is classified as a causal study because it seeks solutions to existing problems, aligning with the nature of this investigation (Uma Sekaran. 2015 In Economic Education Undiksha et al., 2023).

Data can be collected through various methods, such as observations, interviews, document analysis, and tape recordings. Prior to the utilization of data, it is commonly used for pre-processing procedures such as documenting, writing, modifying, or transcription (Cardella et al., 2021).

Data analysis follows Miles and Huberman's approach, consisting of three tasks: data reduction, data presentation, and conclusion drawing (Bossu et al., 2020; Rangka et al., 2022). Data reduction involves summarizing, coding, and categorizing information to identify key themes (Maryaningsih et al., 2022; Bindseil et al., 2019). Triangulation is applied to ensure data

validity by comparing information from interviews, observations, and documents (Mohammad & Davoodalhosseini, 2018; Kadek Indri Wira Pratiwi et al., 2023).

Source triangulation involves the juxtaposing and verifying information obtained from various sources, at different points in time, and using different methods or tools (Erlita et al., 2018).

Qualitative data can be presented in various matrices, graphs, networks, and charts. All of them aim to merge structured data in a logical and easily comprehensible manner. As a result, data presentation is a component of the analysis (Calle & Eidan, 2020). This visual representation facilitates pattern recognition and supports the development of conclusions (Guerrero et al., 2021; Krishna et al., 2022). Qualitative data analysis ensures a comprehensive understanding of MSME owners' perspectives on technology adoption and Islamic financing, contributing to practical recommendations for policymakers and financial institutions.

## D. RESULT AND DISCUSSION

### 1. Results

Based on the survey results in the research conducted by providing data collection instruments in the form of questionnaires, the results were found as shown in table 1 below:

**Table 1 Research Data Results**

<b>Variable</b>	<b>Responden (%)</b>	<b>Main Financing Source (%)</b>	<b>Technology Adoption Level (%)</b>	<b>Business Sustainability (%)</b>
<b>Islamic Financing</b>	45%	55%	60%	70%
<b>Conventional Financing</b>	40%	45%	50%	60%
<b>No Financing</b>	15%	-	30%	40%
<b>High Technology Adoption</b>	-	50%	65%	75%
<b>Low Technology Adoption</b>	-	50%	35%	50%
<b>Business Continuity During Pandemic</b>	100%	70% Islamic Finance	60% High Technology	65%

*Source: Research Output, 2021*

In accordance with the data contained in table 1.1. it can be concluded that during the pandemic issue and business technology, the financing used by micro, small and medium enterprises (MSMEs) is sharia financing where the weight of this main financing reaches 70%, while the technology adopted is technology with high standards, with a weight of 60%, for business continuity during the pandemic issue and business technology takes place reaches 65% so that the influence of the pandemic issue and business technology plays a significant role that can disrupt the sustainability of businesses run by micro, small and medium enterprises (MSMEs).

### 2. Discussion

The role of financing for MSMEs in Lampung Province during the pandemic and the adoption of business technology is crucial to support business sustainability. While challenges

such as limited access to financing and low financial literacy still exist, opportunities from sharia-based financing and technology provide new avenues for MSMEs to rise and develop. Support from local governments, both in the form of policies and financing programs, will be key in maximizing the potential of MSMEs in Lampung in the post-pandemic era.

The COVID-19 pandemic has had a significant impact on MSMEs in various regions, including in Lampung Province. Many MSMEs in Lampung have experienced a decline in income due to limited mobility and reduced consumer purchasing power. Supply chain disruptions and declining local demand have forced MSMEs to find new ways to stay afloat, including by adopting business technology and seeking more flexible sources of financing.

MSMEs in Lampung, like in other regions, have started to turn to business technology to overcome the challenges faced during the pandemic. Technologies such as e-commerce, digital financial management applications and online marketing platforms are helping MSMEs to expand their market reach and stay connected with customers. The use of social media as a marketing tool is also increasing, allowing MSMEs to promote their products without having to rely on traditional methods affected by physical restrictions.

In order to adopt new technologies, MSMEs need access to adequate financing. In Lampung, various financing schemes, both conventional and sharia-based, play an important role in providing MSMEs with the necessary capital. However, not all MSMEs have equal access to this financing. For MSMEs that have good digital and financial literacy, technology-based financing such as fintech lending is an attractive option due to its fast and more accessible process.

Sharia financing has also started to gain attention among MSMEs in Lampung, especially for those who want to avoid interest (*riba*) and seek financing that is fairer and in accordance with Islamic principles. Islamic financial institutions, such as Baitul Maal wat Tamwil (BMT) and Islamic banks, provide a range of financing products designed to support MSMEs. Products such as *mudharabah* and *musyarakah* help MSMEs obtain capital with more flexible and less burdensome profit-sharing schemes.

The reason why MSMEs in this study in Bandar Lampung City and West Lampung Regency do not use financing from banks or other financial institutions and only use self-financing capital is:

#### **a. Onerous requirements**

The requirement in the context of this discussion is collateral. Collateral itself is a guarantee that must be pledged when a customer wants to borrow some funds from a bank or other financial institution. This guarantee will be held until the customer has finished paying the installments agreed by both parties. In the sample we studied, MSME actors admitted that they objected to the collateral that had to be withheld because the funds borrowed affected the collateral that had to be withheld. The higher the loan, the more valuable the collateral that must be pledged.

#### **b. Unfavorable conditions**

The intended condition is because during the Pandemic pandemic where income decreased, the MSME actors in this study were worried that they would not be able to return the loan. Decreased turnover makes it difficult for MSME actors to stabilize the business they are running. It is difficult to cover expenses, let alone having to pay installments from the

financing that has been made. However, in the context of MSME actors outside the research, it is not uncommon for businesses to go out of business due to a mismatch between income and expenses.

The pandemic has made MSME actors in this study have to work extra to keep their businesses running until now. In fact, many of the MSMEs in this study use online sales, especially those in Bandar Lampung. The case is different for those in West Lampung because access has not been reached by online applications such as Gojek, Grab, Maxim and Shopee Food. They still use delivery services using applications such as WhatsApp to order food or beverage products.

Online sales, especially in Bandar Lampung, have been supported by the existence of food and beverage product ordering applications as mentioned in the previous paragraph. As in Sate Taichan Ngab, Gallery Zara, Sambal Alu, Bebek Belur, and Pisang Noom-noom are already available in the online ordering application, namely Gofood. This is expected to increase turnover with alternative delivery orders for food and beverage products.

#### **c. Lack of trust in banks and financial institutions**

Trust is the most important thing in making transactions or agreements, especially in the context of financing. MSME actors trust family capital more than financing through banks or other financial institutions. This is because family capital usually does not use interest while financing through banks or other financial institutions uses interest. And secondly, family capital does not require collateral to carry out financing but uses the principle of trust.

Unlike the case with banks or other financial institutions that must use collateral to conduct financing. They are afraid that the collateral pledged to the bank or other financial institutions will be lost or damaged. On the other hand, they are also afraid that if at some point they are unable to pay the scheduled installments, then the collateral will still be held until they settle the dependents that must be paid.

#### **d. Lack of socialization from banks financial institutions related to financing products**

Socialization is important in order to introduce the products or services offered. Especially for the financing products discussed in this study, the lack of clarity and confusion of information makes it difficult for MSME actors or customers to find out the full range of products offered by banks or other financial institutions. So that the community, especially MSME players in this study, do not know information about financing.

The majority of financing in this study is self-financing. They admit that the information obtained about financing is not clear and adequate. Socialization is needed so that potential customers know more deeply, especially MSME players in this study, namely in Bandar Lampung City and West Lampung Regency. Samples engaged in the culinary field certainly need funds for the sustainability of the business being run. So, the role of the relevant institutions is to provide socialization and an overview of the financing products offered both in terms of ceilings and collateral that must be provided.

#### **e. Ease of financing**

The inconvenience of doing financing is constrained by customers who have to go to the relevant office to do financing. The sample admitted that the difficult process and having to do it face-to-face made them uneasy, especially with the current pandemic. They feel that this



is very risky to be exposed because the loan application process can be explained in detail during the interview and location survey. In this process, the surveyor will certainly meet with prospective customers and banks and other institutions can provide explanations. And customers only come to the relevant office for disbursement and signing of contracts and submission of collateral.

The bank can provide a platform that is easily understood by the community, both the ease of service directly (to the office) and indirectly (online using the application). Especially in the current era of digitalization, payments and further information should be made with financing-related applications. In this modern era, all the needs for transactions can be done, so it is necessary to be ready for digital transactions for now. However, on the other hand, not all customers understand the online system, it is clear that there are still customers who make payments offline, for them this is better than having to deposit the cash they have.

MSME players, as well as banks and financial institutions, must innovate in relation to digitalization to make the transaction and loan processes more efficient. In the current digital age, where activities can be conducted through sophisticated devices or smartphones, it is essential for MSMEs to embrace technology. This includes facilitating payments, ordering food and drinks, and executing various digital transactions, such as using digital money, e-money, and purchasing digital products like internet quotas and cellular credits.

To support this transition, banks and financial institutions should provide online information services and applications that offer a range of features to simplify transactions. These applications should enable customers to perform transactions without the need to visit physical branches or ATMs, thereby enhancing convenience and accessibility. By developing user-friendly digital platforms, financial institutions can help MSMEs streamline their operations and improve customer engagement.

Furthermore, the implementation of Islamic finance regulations can significantly strengthen MSMEs. Islamic finance principles, which emphasize ethical practices, risk-sharing, and community welfare, align well with the needs of MSMEs. By providing Sharia-compliant financing options, banks can offer MSMEs access to capital without the burden of interest payments, which can be particularly beneficial during economic downturns.

Additionally, Islamic finance encourages investments in socially responsible projects, fostering a sense of community and support among MSMEs. Regulatory frameworks that promote Islamic financing can enhance financial inclusion, allowing underserved MSMEs to access necessary funding. By integrating Islamic finance principles into their operations, MSMEs can not only improve their financial stability but also contribute to sustainable economic growth, ultimately leading to a more resilient business environment.

## **E. CONCLUSION**

The research findings on the role of financing for micro and medium enterprises (MSMEs) during the pandemic in Lampung Province reveal both negative and positive impacts. Notably, MSMEs in Bandar Lampung City and West Lampung Regency experienced a significant decline in financing, technology adoption, and business continuity, with reductions of 30-40 percent. This downturn is largely attributed to decreased consumer purchasing power and government policies like Large-Scale Social Restrictions (PSBB) and the Enforcement of

Restrictions on Community Activities (PPKM), which diminished tourism and consumer traffic.

Despite these challenges, the pandemic also catalyzed innovation and digital transformation among some MSMEs. A notable example is Mas Alwi's business, which successfully adapted to digital formats. Interestingly, MSMEs primarily relied on self-financing rather than seeking loans from banks, as it provided a sense of security and autonomy. While self-financing eliminated interest-related risks, it also reduced external motivation for innovation.

The study highlights that Islamic finance principles, emphasizing risk-sharing and ethical investment, could have offered valuable support to MSMEs during the crisis. However, the limited engagement with Islamic financing options indicates a gap in awareness that requires further investigation.

This study has limitations, including its regional focus and reliance on qualitative data, which may not capture broader trends across Indonesia. Future research should adopt a quantitative approach to assess the pandemic's financial impacts on MSMEs and explore experiences in other regions to better understand the effectiveness of various financing models, including Islamic finance, in enhancing MSME resilience and growth.

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