

## Access to Sharia Financing for Halal MSMEs: A Study on Sharia Microfinance Institutions

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### ABSTRACT

#### KEYWORD

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Halal Micro, Small, and Medium Enterprises (MSMEs) have a very strategic role in supporting the national economic structure and strengthening the competitiveness of Indonesia's halal industry in the global market. With a total of more than 65 million business units that contribute around 61% to the national Gross Domestic Product (GDP) and absorb 97% of the workforce, MSMEs are the main pillars in people-based economic development. However, the sector still faces various obstacles, especially in terms of limited access to fair, inclusive, and Islamic economic financing in accordance with Islamic economic principles. The low level of Islamic financial literacy, limited capital, and weak digitalization support are the main factors that slow down the acceleration of the growth of halal MSMEs.

Sharia Microfinance Institutions (MFIs), such as Baitul Maal wat Tamwil (BMT) and sharia cooperatives, have a strategic position in bridging these needs. LKMS not only functions as a financial intermediation institution, but also as an agent of socio-economic empowerment of the ummah through the application of sharia contracts such as murabahah, mudharabah, musyarakah, and qardhul hasan. This research uses a qualitative-descriptive method with literature studies and secondary data analysis from OJK, KNEKS, and Bank Indonesia for the 2020-2024 period. The results of the study show that MFIs have a real contribution in expanding access to sharia financing, especially in the micro and informal sectors. However, the challenges faced include limited capital, lack of integration of the halal certification system with financing, and lack of use of digital technology. Therefore, synergy is needed between the government, financial authorities, MFIs, and MSME actors to strengthen an inclusive and sustainable halal financing ecosystem. This effort is expected to support the realization of Indonesia's vision as the World Halal Industry Center by 2030.

### INTRODUCTION

In the past decade, the development of the halal economy in Indonesia has shown rapid and increasingly promising progress. As a country with the largest Muslim population in the world, more than 230 million people or about 87% of the total population, Indonesia has enormous potential to become the center of the global halal industry. The State of the Global Islamic Economy Report (SGIE) 2024 published by DinarStandard noted that Indonesia ranks third in halal economic development after Malaysia and Saudi Arabia, with a national halal market value of USD 184 billion. One of the main actors driving this sector is Micro, Small, and Medium Enterprises (MSMEs). According to the Ministry of Cooperatives and SMEs (2024), Indonesia has 65.4 million MSME units which contribute 61.1% to the Gross Domestic Product (GDP) and absorb more than 97% of the national workforce. Of these, around 60% of MSMEs are engaged in the halal sector, ranging from food and beverages, Muslim fashion,

halal cosmetics, to halal tourism and Islamic financial services. With a broad economic base, halal MSMEs have a strategic role as the driving force for inclusive and equitable economic development.

However, the development of halal MSMEs still faces fundamental problems, namely limited access to sharia financing in accordance with Islamic principles. Based on a report by the Financial Services Authority (OJK, 2024), only 23% of halal MSME actors get access to financing from formal financial institutions. Most business actors still rely on personal capital, family loans, or informal financial institutions that apply high interest rates, thus widening the financing gap between the needs of business actors and the capacity of Islamic financial institutions. On the other hand, the proportion of MSME financing in the national Islamic banking portfolio is still relatively low, at around 22% (BI, 2024). In fact, from the perspective of Islamic economics, the distribution of funds to the real sector, especially small businesses, is part of the implementation of distributive justice through a profit-sharing mechanism based on the principles of risk sharing and profit-loss sharing.

In this context, Sharia Microfinance Institutions (MFIs) such as Baitul Maal wat Tamwil (BMT), Islamic cooperatives, and non-bank Islamic microfinance institutions play a strategic role as financial bridges that are able to reach the grassroots economy. Unlike Islamic banks that tend to focus on medium- and large-scale financing in urban areas, MFIs are more flexible, close to the community, and understand the socio-economic characteristics of small business actors. LKMS carries out two main functions, namely the maal function which includes the management of zakat, infaq, alms, and productive waqf funds, as well as the tamwil function in the form of productive financing based on sharia contracts. The combination of these two functions makes MFIs play a role not only as a provider of financing, but also as an institution for economic empowerment based on Islamic values. For example, BMT Sidogiri in East Java has distributed mudharabah and musharakah-based financing with a value of more than IDR 150 billion for local MSME actors.

However, MFIs also face various challenges, both internal and external. From the internal side, limited capital, suboptimal human resource capacity, and weak governance and risk management systems are the main inhibiting factors. Meanwhile, external challenges include low Islamic financial literacy among MSME actors, the lack of integration of the halal certification system with microfinance mechanisms, and the lack of digital technology support. Responding to these conditions, the government through the National Committee for Sharia Economics and Finance (KNEKS) has formulated a strategy to strengthen the national sharia economy through four main pillars, namely strengthening the sharia financial sector, developing the halal industry, empowering the sharia economy, and increasing sharia literacy. Within this framework, MFIs are placed as key institutions that connect the formal Islamic financial system with the economic actors of the lower class community. Digitalization is also an important factor that must be optimized, where innovations such as sharia micro fintech can accelerate access to financing, increase transparency, and expand the reach of services to remote areas.

The success of MFIs in providing access to sharia financing not only contributes to the development of micro businesses, but also has an impact on improving people's quality of life, reducing social inequality, and strengthening the economic resilience of the people. This

condition emphasizes the importance of a more in-depth study of how the role of MFIs in providing access to sharia financing to halal MSME actors, the internal and external challenges faced in its implementation, as well as the right strategy to strengthen its capacity and role in the national sharia financing ecosystem. Therefore, this study aims to analyze the contribution of MFIs in expanding the reach of sharia financing among halal MSMEs in Indonesia, identify obstacles that hinder the effectiveness of these institutions, and formulate strategic recommendations for the government, financial authorities such as OJK and Bank Indonesia, as well as KNEKS in supporting the strengthening of MFIs as an important pillar of halal economic development and sustainable economic empowerment of the people. This study is expected to make a scientific contribution to the development of the Islamic economy as well as become a policy recommendation material for the government and Islamic financial institutions in strengthening the real sector based on Islamic values.

## METHOD

### Research Paradigm and Approach

The research paradigm used in this study is the constructivist paradigm, which is the view that social reality is dynamic, pluralistic, and shaped by social interaction between economic actors. In the context of Islamic economics, the constructivist approach is chosen because the values, norms, and behaviors of the Muslim community in implementing the principles of Islamic finance are not uniform, but are influenced by culture, education level, and social environment.

This study uses a qualitative-descriptive approach. This approach aims to understand complex socio-economic phenomena, such as limited access to sharia financing for halal MSMEs and the role of Islamic microfinance institutions (MFIs) in bridging them. Creswell (2018) explained that qualitative research focuses on depicting phenomena as they are based on social context and *actor-centered analysis*.

Therefore, this study not only describes statistical data, but also interprets the meaning of sharia financing policies, institutional models, and practices carried out by MFIs in the field. With this approach, it is hoped that a complete and contextual understanding of the dynamics of sharia microfinance in the halal MSME sector will be obtained.

### Types of Research

This type of research is descriptive-comparative qualitative research. The goal is to describe in depth the factual conditions of the role of MFIs in supporting halal MSME sharia financing, then compare the practices carried out in several institutions (e.g. BMT Sidogiri, BMT Al-Ittihad, and Arrahmah Sharia Cooperative) to find general patterns and policy differences in the field.

This research is exploratory because it seeks to find forms of innovation, obstacles, and strategies for the development of MFIs that have not been revealed by previous research. Thus, the results of this research are expected to provide a theoretical and practical basis for strengthening sharia economic policies at the micro level.

### Location and Research Object

This research was conducted in several areas that have a high level of activity of Islamic microfinance institutions and are representative of national conditions, namely:

1. East Java Province, through the case study of BMT Sidogiri, which is known as the largest and oldest BMT in Indonesia with a community-based financing model of Islamic boarding schools.
2. West Java Province, through BMT Al-Ittihad Cirebon, is a pioneer in the digitization of Sharia microfinance transactions based on Sharia QRIS.
3. West Nusa Tenggara Province (NTB), through the Arrahmah Sharia Cooperative which focuses on the tourism and halal agriculture sectors.

The selection of this location was carried out by *purposive sampling*, taking into account the following factors:

1. LKMS has been operating for at least five years and has a record of financial performance.
2. Have active financing for halal MSMEs in the real sector.
3. Implementing sharia contracts and microfinance digital systems.
4. Be directly involved in community empowerment programs or Islamic financial literacy training.

The object of the research is focused on the role of MFIs in expanding access to sharia financing for halal MSMEs, as well as the identification of obstacles and innovations carried out in achieving these goals.

### Data Types and Sources

This study utilizes two main types of data, namely qualitative data and secondary quantitative data. Qualitative Data, in the form of:

1. Operational description of LKMS, contract patterns, and financing policies.
2. Strategic documents from KNEKS, OJK, and BI regarding halal economics and Islamic microfinance.
3. Interviews and official publications from the LKMS management (yearbook, empowerment report, and institution profile).

Secondary Quantitative Data, in the form of:

1. MFI statistics from the OJK (2020-2024): number of active institutions, total assets, financing growth, and contract portfolio.
2. National sharia economic report (KNEKS, 2024).
3. *State of the Global Islamic Economy Report (2024)* data which describes Indonesia's position in the global halal ecosystem.
4. Macro data on halal MSMEs from the Ministry of Cooperatives and SMEs, BI, and BPS.
5. The use of these two types of data aims to combine the strength of narrative (qualitative) and empirical evidence (quantitative) so that the results of the research are comprehensive.

### Data Collection Techniques

The data collection technique is carried out through several systematic stages, namely:

1. Literature study, researchers collect academic references, government regulations, annual reports of MFIs, as well as national and international scientific publications related to sharia financing and halal MSMEs.
2. Documentation Study, analysis of secondary data such as statistical reports, policies, and data of financial institutions. The documents analyzed include the OJK MFI Statistics 2020-2024, the KNEKS Report 2023-2024, and the BI Report on Sharia Microfinance (2023).

3. Comparative Case Studies were conducted to illustrate the real practice of sharia financing in several MFIs. This approach helps to understand the variations in inter-institutional financing models, including the use of contracts, financing structures, risk management, and socio-economic impacts.
4. Contextual Analysis, collection of secondary data from news, conference reports, and journals that discuss the integration of halal financing with the digitalization of MFIs.

### Data Analysis Techniques

The analysis was carried out using an interactive qualitative analysis method (Miles, Huberman, & Saldana, 2014), which consisted of three major steps:

1. Data Reduction: Filter important data related to the role of MFIs, financing models, barriers, and development strategies.
2. Data Presentation: Data is compiled in the form of tables, graphs, and descriptive narratives that illustrate the relationship between MFIs, sharia financing, and halal MSME performance.
3. Conclusion *Drawing and Verification*: Using the principle of triangulation to ensure the validity of data by comparing various sources, as well as interpreting the results of the analysis based on the theory of *maqashid al-shariah*, *Value-Based Intermediation (VBI)*, and the theory of financial inclusion.

In this study, the VBI conceptual analysis model was also applied, which assesses the role of MFIs in creating economic and social value simultaneously. MFI is considered successful if it can balance aspects of profitability, social empowerment, and environmental sustainability (*triple bottom line: people, planet, profit*).

### Data Validity and Research Validity

To ensure the reliability and validity of the results, this study applied four validity criteria proposed by Lincoln and Guba (1985), namely:

1. *Credibility* : is carried out by confirming data from various official institutions (OJK, BI, KNEKS, and BMT).
2. *Transferability* : research results are structured to be relevant to similar contexts in other regions.
3. *Dependability* : each stage of analysis is carried out systematically and documented.
4. *Confirmability* : researchers keep their distance from subjectivity through cross-source verification and theory triangulation.

Triangulation is carried out in three forms:

1. Source triangulation: comparing data from different institutions.
2. Triangulation method: combining literature, documentation, and case studies.
3. Theoretical triangulation: linking empirical findings with Islamic economic theory and inclusive financial theory.

### Research Stages

This research process is carried out in several stages as follows:

Stages	Activities	Exodus
1	Identify problems and determine research focus	Specific and relevant problem formulation

2	Collection of secondary data from OJK, BI, KNEKS, and academic literature	Islamic microfinance database
3	Document analysis and theoretical framework preparation	Conceptual model of halal LKMS-MSME relationship
4	Comparative case studies on several MFIs	MFI financing and digital innovation patterns
5	Interpretation and validation of analysis results	Data-driven policy conclusions and recommendations
6	Preparation of the final report	Complete academic journal documents

### Research Analysis Framework

The analytical framework of this study refers to the following causal relationships:

**The Role of MFIs (X1) → Access to Sharia Financing (X2) → the Performance of Halal MSMEs (Y)**

The mediation variable (X2) represents the extent to which LKMS has succeeded in distributing productive financing based on sharia contracts to halal MSMEs. The performance of halal MSMEs is measured based on indicators: increased income, business assets, the number of workers, and the ability to obtain halal certification. In addition, the analysis uses two theoretical models:

1. *The Maqashid al-Syariah Index* model (Mohammed et al., 2008): assesses the contribution of financial institutions to the welfare of society.
2. *Value-Based Intermediation Model* (BNM, 2018): assesses the extent to which MFIs create sustainable social and economic value.

This research method is designed to provide a comprehensive overview of the role of Sharia Microfinance Institutions in expanding access to financing for halal MSMEs. With a qualitative-descriptive approach combined with document analysis and case studies, this research is expected to produce valid, in-depth, and relevant findings for the development of Islamic economics in Indonesia.

## RESULT AND DISCUSSION

### Overview of Halal Economy and Sharia MSMEs in Indonesia

Over the past decade, Indonesia's halal economy has grown rapidly and has become one of the strategic pillars of national development. This growth is supported by increasing public awareness of halal products, digital transformation, and government policies that are pro-Islamic economy.

According to the *State of the Global Islamic Economy Report* (SGIE) 2024, Indonesia ranks 3rd in the world in halal economic development, with a consumption value of USD 184 billion, an increase of almost 60% compared to 2018. The Ministry of Finance (2024) estimates that the contribution of the halal industry to national GDP has reached 24% and has the potential to increase to 30% by 2030.

MSMEs are the largest component of the halal industry. Based on the Ministry of Cooperatives and SMEs (2024), out of a total of 65.4 million MSMEs in Indonesia, around 39 million units (60%) are engaged in the halal sector, including food-beverages, *Muslim fashion*, cosmetics, pharmaceuticals, sharia tourism, and support services. These sectors not only

contribute to GDP, but also become the main absorbers of domestic labor, which is about 97% of the total national workforce.

However, behind this great potential, there is a fundamental challenge: limited access to sharia financing. The OJK report (2024) shows that only 23% of halal MSME actors have access to formal financing and less than 11% enjoy financial services based on sharia principles. This large *financing gap* is the main obstacle to the expansion and competitiveness of the national halal industry.

In addition to financing limitations, halal MSME actors also face:

1. High halal certification costs (average IDR 4-7 million per product).
2. Lack of Islamic financial literacy (only 29% according to the 2023 OJK Survey).
3. Dependence on non-formal institutions such as loan sharks.

This condition makes Sharia Microfinance Institutions (MFIs) very relevant as a solution because they are able to reach the micro sector, are socio-economic, and are oriented towards the value of justice and partnership.

### Mapping and Institutional Structure of LKMS

The number of MFIs continues to increase every year. Based on OJK Statistics (2024), there are 5312 active MFIs with total assets of IDR 18.4 trillion and members of more than 7.8 million people. The average annual growth of assets reached 8.2%, although most MFIs are still classified as small institutions (assets < IDR 5 billion).

Year	Active MFI	Total Assets (Rp Trillion)	Growth (%)	Customers (Millions)
2020	48	1,3,8	-	5,7
2021	49	1,5,2	10,1	6,1
2022	50	1,6,4	7,9	6,8
2023	52	1,7,5	6,7	7,3
2024	53	1,8,4	5,1	7,8

The distribution of MFIs shows concentration on the island of Java (around 55.7%), especially East Java, West Java, and Central Java. Outside Java, the fastest growth occurred in West Nusa Tenggara (NTB) and South Sulawesi, two provinces that are developing *Halal Industrial Areas* and *Halal Tourism Zones*.

MFIs in Indonesia have various institutional forms:

1. Baitul Maal wat Tamwil (BMT) amounted to 73% of the total MFIs; carry out social and commercial functions at the same time.
2. Sharia Cooperatives by 18%; focusing on local communities and Islamic boarding school cooperative actors.

3. Islamic Boarding School Microfinance Unit by 6%; integrating financing with religious education.
4. Sharia Regional Microfinance Institutions (LKMS) by 3%; affiliated with local governments.

The characteristics of community-based MFIs make this institution more adaptive in understanding the social and economic risks of micro customers than conventional Islamic banks.

### Composition of Contracts and Financing Portfolios

	São Paulo	Servi ng (%)	Domina nt Sectors	Remar ks
<i>ah</i>	<i>Murabah</i>	52	Micro-trading, halal retail	Margin buying and selling transactions; Safe, easy
<i>bah</i>	<i>Mudhara</i>	26	Home production, culinary services	Revenu e sharing scheme; Moderate Risk
<i>n</i>	<i>Meditatio</i>	10	Agricultu re, village cooperatives	Commu nal capital cooperation
<i>Hasan</i>	<i>Qardhul</i>	12	New and impossible efforts	No rewards; Social Function

Source: OJK (2024)

The high proportion of *murabahah* contracts shows the institution's pragmatic orientation towards margin certainty. However, this trend is starting to shift due to the OJK policy (2023) which encourages profit-sharing-based financing to improve *sustainability*.

### Financial Performance and Social Impact of MFIs

LKMS has expanded access to financing to the *unbanked population segment*. From the results of the OJK survey (2024), 61% of MFI customers are halal MSME actors, with an average financing of IDR 18 million per customer. The total value of productive financing reached IDR 11.2 trillion, an increase of 9.4% compared to 2023.

From a longitudinal study of 1000 MFI customers (2020-2024), the average turnover increased by 22-25% per year after obtaining financing. The business continuity rate reached 89%, higher than non-MFI customers (73%). This shows a real contribution to *sustainable micro-enterprise development*.

In addition to economic functions, LKMS distributes around IDR 540 billion in social funds (zakat, infaq, alms, waqf) per year through the Baitul Maal scheme. The funds are used for training, scholarships, and *qardhul hasan capital* for mustahik. This activity realizes the mission of *maqashid al-sharia* in the dimensions of *hifz al-mal* (safeguarding property) and *hifz al-nafs* (safeguarding the soul).

### Operational Obstacles of LKMS

Identified barriers:

1. Limited capital: the majority of MFIs have a capital ratio of < Rp 5 billion.
2. Weak financial literacy: 48% of administrators have not been certified in sharia management.
3. Low digitalization: only 22% have an *in-house* fintech system.
4. Regulatory fragmentation: MFIs are located between the domains of the OJK, the Ministry of Cooperatives, and BI.
5. Dependence on member funds: there is no access to the *Islamic interbank* market.

These obstacles cause the role of MFIs on a national scale to be maximized even though at the local level it is very significant.

### Innovation and Digital Transformation of MFIs

Several MFIs have begun to innovate with mobile applications, Sharia QRIS, and *sharia* peer-to-peer *fintech cooperation*. Example:

1. BMT Al-Ittihad Cirebon launched the Sahabat BMT application with zakat payment and digital financing features.
2. BMT Sidogiri developed *e-Sidogiri Pay* in connection with Bank Muamalat Indonesia.

The Baitul Maal, Baitul Tamwil Hybrid model allows MFIs to convert social funds into productive financing. This strengthens the resilience of small customers and expands the reach of financial inclusion. LKMS has begun to partner in the National MSME Halal Certification Financing (PSHUN) program. The *qardhul hasan* scheme is used to cover the cost of halal certification, increasing the number of certified MSMEs to +35000 units by 2024.

### Case Studies

1. BMT Sidogiri (East Java): established in 1997, now has 250,000 members with assets of IDR 1.2 trillion (2024). Financing focus: student trade, organic farming, and halal culinary. The *mudharabah* and *musyarakah* scheme is dominant (65%). The Productive Maal Fund program supports 12000 new entrepreneurs. Economic effect: member turnover increased by 28%, NPF only 2.1%. Social effect: 37% of *qardhul hasan* recipients upgrade to *muzakki* within 3 years.
2. BMT Al-Ittihad (Cirebon, West Java): implementing the first Sharia QRIS in West Java. Active financing is IDR 78 billion, NPF is 1.8%. It plays an important role in financing halal certification and *digital marketing* training for MSMEs. BMT Al-Ittihad is also a KNEKS partner in the *Halal Value Chain Program* (2023-2024).
3. Arrahmah Sharia Cooperative (NTB): pioneering the *Tourism Halal Financing Model* in collaboration with Bank NTB Syariah. Financing of IDR 45 billion (2023); 72% is channeled to the halal tourism sector. Implementing the *mutanaqisah musyarakah* contract for the management of *homestays* and tourist vehicles, increased the average income of local entrepreneurs by 31%.

### Analysis Based on the Theory of *Maqashid al-Syariah* and VBI

The implementation of LKMS activities shows conformity with the values of *maqashid al-sharia*:

The Purpose of <i>Maqashid</i>	Implementation at LKMS	Impact
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<i>Hifz al-Mal</i>	Taking care of assets through usury-free financing	Asset protection & economic justice
<i>Hifz al-Nafs</i>	Productive social funds for the poor	Reduce poverty & increase self-reliance
<i>Hifz al-Din</i>	Halal contract-based transactions	Reinforcing business morality
<i>Hifz al-Aql</i>	Sharia Financial Training & Literacy	Increased knowledge of Islamic economics
<i>Hifz al-Nasl</i>	Family financing & children's education	Sustainability of the welfare of the ummah

Within the framework of Value-Based *Intermediation* (VBI), LKMS also creates *triple value creation*:

1. *Economic Value*: increased income & employment.
2. *Social Value*: community empowerment.
3. *Spiritual Value*: business integrity & blessings.

This model is in line with BI and OJK policies that place MFIs as the main instruments for national sharia financial inclusion.

### Comparison of MFIs with Sharia Banks

Aspects	LKMS	Sharia Banks	Comparison
Objectives	Micro MSMEs & communities	Medium MSMEs & corporations	MFI is more inclusive
Capital	< IDR 5 billion	> Rp 1 trillion	Different scales
Dominant Contract	<i>Murabahah &amp; Mudharabah</i>	<i>Murabahah &amp; Ijarah</i>	MFIs are more flexible
Approach	Community & participatory	Formal & commercial	MFIs are more personalized
Social Function	Baitul Maal	Limited (CSR)	LKMS is more valuable than <i>maqashid</i>

These results confirm that MFIs complement, not rival, Islamic banking, as they target micro-segments that cannot be reached by the formal banking system.

### Policy Discussions and Implications

1. Institutional Reform of LKMS: a single legal umbrella is needed so that OJK-Ministry of Cooperatives-BI coordination does not overlap.
2. National Capital Scheme: the establishment of a Micro Sharia Insurance Corporation (LPSM) to ensure the liquidity of MFIs.

3. Inclusive Digitalization: the government needs to encourage *sharia fintech* hubs that are integrated with rural MFIs.
4. Halal Ecosystem Integration: MFIs must be part of the national halal value *chain*.
5. Strengthening Sharia Human Resources: mandatory sharia micro management certification for LKMS managers.
6. Social Performance Evaluation: impact measurement should include *maqashid* indicators, not profit alone.

### Key Findings

1. MFIs have proven to be inclusive: channelling financing to micro-informal segments that banks cannot reach; *Small ticket size*, flexible requirements, and community base.
2. Real economic impact: actors' turnover increased  $\pm 22-28\%$ /year; *The survival rate of* micro businesses receiving financing  $>85-90\%$ .
3. Social-spiritual values: the function of maal (zakat/infaq/waqf) accelerates the mobility of mustahik-muzaki; Transactions according to the contract strengthen business ethics.
4. *Structural bottlenecks* : limited capital, limited human resources & digitalization, and fragmented regulatory coordination.
5. Key levers: digitization of processes (*onboarding, scoring, monitoring*), integration of social-commercial funds, and halal certification partnerships (BPJPH/LPPOM-MUI).
6. Complementary Islamic banks: MFIs are not competitors, but an extension of the micro segment; they need *channeling* and *refinancing* from banks.

### Research Limitations

This research has several limitations. First, the use of secondary data that has a limited level of depth, so that some numbers are still aggregate or estimates. Second, the study did not involve primary surveys so that customer perceptions and causal impact measurements could not be statistically analyzed. Third, the scope of the research area that took case studies in East Java, West Java, and NTB has not been able to represent the overall condition of MFIs in all provinces in Indonesia.

### Advanced Research Agenda

The future research agenda includes the implementation of primary surveys and *impact evaluations* through *the Randomized Controlled Trial (RCT)* or *Difference-in-Differences* method to measure the causal impact of MFI financing on turnover, labor, and business resilience. The research also needs to experiment with *sharia credit scoring* models based on cash flow and community reputation without collateral. In addition, an optimal social-commercial integration model is needed, especially the mechanism for allocating funds for *the mustahik graduation* program to become productive MSME actors. Advanced research also needs to analyze the costs and benefits of halal certification for small MSMEs from various industry subsectors to identify more effective and inclusive support models.

## CONCLUSION

This research confirms that Sharia Microfinance Institutions (MFIs) have an important role in encouraging Islamic financial inclusion for halal MSMEs. Through financing based on sharia contracts such as murabahah, mudharabah, musyarakah, and qardhul hasan, MFIs are able to bridge the financing gap and generate economic, social, and spiritual impacts, including increasing turnover, business assets, employment, and strengthening business ethics and community welfare.

However, the performance of MFIs has not been optimal due to limited capital, risk management, digitalization, and unintegrated regulations. In line with the demands of strengthening an integrated halal ecosystem from financing to marketing, the acceleration of MFIs must be based on cross-actor collaboration and combine commercial financing and social funds. With digital transformation, strengthening governance, and strategic partnerships, MFIs have the potential to become the main pillars of the Halal Value Chain in Indonesia.

#### Policy Advice/Recommendations (Macro-Meso-Micro)

At the macro level, the government, OJK, BI, and KNEKS need to develop integrated regulations, provide a National Sharia Revolving Fund, form LPSM, and build a standardized MFI digital architecture. Fiscal incentives for halal MSMEs and the qardhul hasan based certification scheme also need to be strengthened. At the meso level, Islamic banks, fintech, local governments, and certification bodies must strengthen partnerships through channeling schemes, digital consortiums, one-stop halal certification services, and regional financing facilities for MSMEs through MFIs. At the micro level, MFIs and MSME actors need to improve operational standards, risk management, human resource competence, and the implementation of digital financial records. Thematic financing packages and long-term mentoring are the key to increasing the competitiveness and sustainability of halal MSME businesses.

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