

## INDONESIAN ISLAMIC BANK FINANCING IN INCREASING HALAL-BASED MICRO, SMALL AND MEDIUM ENTERPRISES IN THE INDUSTRIAL ERA 5.0

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**Abstract** : Micro, Small and Medium Enterprises Financing is financing provided by business-based Islamic financial institutions, meaning that the capital is rolled out for working capital. Increased public awareness of halal matter and strong stakeholder support are important factors in the development of the halal industry ecosystem in Indonesia. The Industrial Era 5.0 had an impact on all existing sectors including the economic sector in the form of banking and halal-based business entities. This study discusses Indonesian Islamic Banks in halal-based Micro, Small and Medium Enterprises financing in the industrial era 5.0 which has an impact on the economy in Indonesia. It is based on literature research in the form of reading financial archives, field observations, and analysis results from the financial statements of Bank Syariah Indonesia. This study argues that financing Bank Syariah Indonesia as a provider of capital will increase Halal-based Micro, Small and Medium Enterprises supported by the use of digital media in the era of industrial 5.0.

**Keywords** : *Islamic Banking, MSMEs, Halal-Based, Industrial Era 5.0.*

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### 1. Introduction

Financial institutions like banks, which are crucial in bridging the need for working capital, especially Islamic banking, must assist the expansion of micro, small, and medium companies (MSMEs). Business-based Islamic financial institutions offer financing for micro, small, and medium-sized businesses, which means that funds are dispersed for working capital. According to sharia law, Islamic banks are financial entities that serve as bridges between those who have surplus cash and others who don't have enough for purchases, payments, etc. Suryanto and Nasrullah contend that Islamic banking must provide financing instruments for micro, small, and medium-sized businesses. Due to the fact that Islamic banks assist in addressing these working capital requirements and Indonesia's robust economy significantly influences the presence of micro, small, and medium-sized businesses (atiyah, 2020).

**Table 1** Table of Indonesian MSMEs

<b>Business Scale</b>	<b>Number of Business Units</b>	<b>Percentage</b>
Micro	63.955.369	99,62 %
Small	193.959	0,30%
Medium	44.728	0,06%

Source : [www.kemenkopukm.go.id](http://www.kemenkopukm.go.id), (2022)

Microbusinesses predominate among MSMEs in Indonesia. 63,955,369 business units, or 99.62% of all MSMEs, were micro firms. While medium-sized firms make up 0.06% of the total and tiny businesses about 0.30%. Despite internal and external limitations, the business sector of micro, small, and medium firms has a tremendous deal of potential to promote macroeconomic development. The issues that micro, small, and medium-sized businesses confront across the globe are all related to a lack of working capital, poor human resources, poor product quality and productivity, and a limited understanding of science and technology (Lubis, 2016). To promote the expansion of halal micro, small, and medium firms, sharia financing is crucial. The lack of awareness, comprehension, and intention among small- and medium-sized company players to work with Islamic financial institutions is a barrier to maximizing sharia finance (qoyum & fauziyyah, 2019).

Due to the merger of three Islamic banks, Bank Syariah Indonesia is now the largest Islamic bank in Indonesia. The public distribution of financing for micro, small, and medium enterprises provides evidence of Bank Syariah Indonesia's contribution to the growth of micro, small, and medium-sized businesses. In actuality, less money is being invested in small, medium, and microbusinesses. This has also occurred not only in 2020 but also in 2018, prior to the merger of Bank Syariah Indonesia from three Islamic banks, namely BRIS, BNIS, and BSM. Following that, (Setiawan, 2021) indicated that despite an increase in funding from Islamic banks for micro, small, and medium-sized businesses, there has been a declining trend in the percentage of financing for these types of businesses as a share of all financing provided by Islamic banks. The percentage of credit provided by Islamic banks to micro, small, and medium-sized businesses was 21.99% in 2016, but it fell to 18.68% in 2019. Since 2018, the ratio of funding from Islamic banks to micro, small, and medium-sized businesses has been below 20%, falling short of the requirements set forth by the Indonesian Central Bank.

**Table 2**

Bank Syariah Indonesia Micro, Small and Medium Enterprises Financing 2021 (in million rupiah)

Quarter	Jumlah
Quarter I March	97.109
Quarter II June	11.786
Quarter III September	6.731
Quarter IV December	5.386

Source : Results of Bank Sariah Indonesia Quarterly Financial Report, (2021)

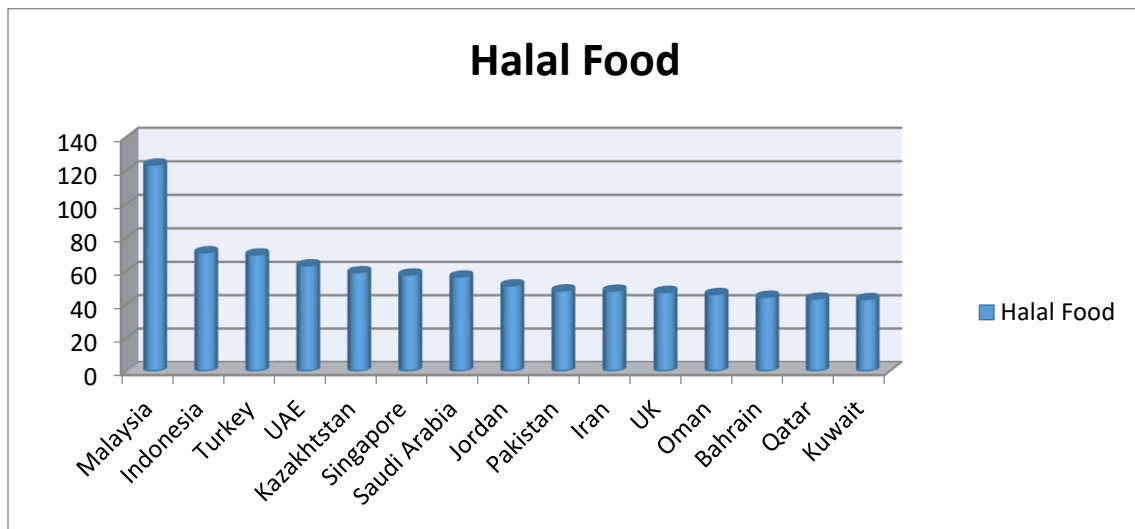
The world's largest Muslim nation is Indonesia, which has the potential to lead the halal business due to its size. Strong stakeholder support and increased public awareness of halal issues are key components in the growth of Indonesia's halal industrial ecosystem. Because they have a range of financial products that are more flexible and a wide and fair range of product and contract types through a collaboration framework, Indonesian Islamic banks are projected to be able to support the development of halal micro, small, and medium enterprises. One of these is the funding of micro, small, and medium-sized firms by Indonesian Islamic banks (partnership) through profit sharing. Halal micro, small, and medium-sized firms are those that have completed the technical steps necessary to produce halal goods in a manner compliant with Islamic law and sharia. Halal labels or certifications are bestowed by accredited agencies to strengthen halal products. The potential of the global halal business can increase due to the large number of consumers of halal goods. Halal-based micro, small, and medium-sized businesses boost the economy. There are 229.62 million Muslims in Indonesia as a whole. This has an impact on the amount of halal food and drink that the general public consumes, particularly during a pandemic. Consumption in society is determined by trends that emerge. As a result, halal-based micro, small, and medium-sized businesses could boost the economy both during and after the COVID-19 pandemic (ana siregar, 2022). The sharia economy is anticipated to provide a remedy for the economic system's flaws (syaputra siregar and ana siregar, 2020).

The halal industry is segmented into numerous categories, including food and beverage, apparel, cosmetics, tourism, and pharmaceuticals. The Indonesia Halal Markets 2021/2022 research estimates that in 2020, the global Muslim community will spend US\$ 1.9 trillion on a variety of lifestyle goods, including food and drink, clothing, leisure activities, and travel. The Muslim population of the world spends the most on food and drink when compared to other sectors, according to data.

Indonesian Islamic banks now have fantastic potential to fund micro, small, and medium-sized food and beverage businesses.



**Figure 1** Halal Products Consumption  
Source : Dinar Standard (2022)



**Figure 2** Indicator Score Breakdown for Top 15 Ranking Countries  
Source : State of the Global Islamic Economy (2022)

According to research from Dinar Standard (Figure 1), consumption of halal goods is anticipated to rise to US\$ 282 in 2025, up 53% from US\$ 184 in 2020. Food and drink consumption, which accounts for the largest portion of the sector's output and makes Indonesia the world's largest consumer of food and drink, is expected to rise through 2025. The growing demand for halal goods is directly influenced by the halal way of life. In order to assure product safety and hygiene and to boost product

competitiveness for export to nations that are highly concerned about halal products, micro, small, and medium-sized businesses must acquire halal product certification. The Free Hala Certificate initiative (Sehati), which aims to issue 25,000 halal certificates in order to hasten the production of 10 million halal certified items, is backed by the Halal Product Assurance Organizing Agency initiative.

Indonesia's Halal Food Products are ranked second in the world according to the State of the Global Islamic Economy (SGIE) in 2022. From a consumer standpoint, Indonesia is the world's biggest market for halal food items. The abundance of halal food items in Indonesia presents a fantastic potential to boost halal food production each year for both domestic and international markets. Indicators for halal food in Indonesia are still becoming better, and halal food exports to OIC nations rose by 16%. In addition, this gives Bank Syariah Indonesia a fantastic chance to assist and finance MSMEs with halal roots amidst the rapid development of digital in the industrial era. 5.0.

There are still numerous challenges facing Indonesia's halal industry, which is driven by micro, small, and medium-sized businesses. The topic of capital and finance is one of the most significant. Many micro, small, and medium-sized businesses have finished the halal certification procedure for their products, but due to capital/financial issues, their business development is stagnant. The authors of this study also want to emphasize how Islamic banks' responses take the shape of special policies that help them contribute to the growth of the halal sector both globally and in Indonesia specifically. Of course, the special capital/finance policy that supports micro, small, and medium-sized businesses that already have halal certificates is the function that the halal industry is waiting for.

## **2. LITERATURE REVIEW AND METHOD**

### **2.1 Literature Review**

Banking is a type of financial institution that helps to balance out financial surpluses and deficits. Bank funding and financing sources affect bank performance and the economy on both a micro and macro level (Kasri & Azzahra, 2020). Halal MSMEs are MSME industries that have undergone technical phases to create halal products in a way that does not contravene Islamic law or sharia, and as a result, they have received halal certification from recognized organizations. The demand for halal products is directly impacted by the halal lifestyle (halal way of life). Halal items and the halal lifestyle are not just for consumers who utilize products; they also apply to business players, producers, and service providers. MSME actors are required to acquire halal product certificates in order to promote a halal lifestyle.

MSMEs must therefore strengthen their brands and adhere to a halal lifestyle, exercising caution throughout the entire manufacturing process, ensuring product safety and hygiene, and raising product competitiveness for export to nations that

place a high priority on halal products (Pujiono, 2018). In addition to being connected to commerce, halal products are also connected to science, technology, and religion. The period of society 5.0, which was a revolution from the 4.0 era and offered economic advancement, supported technological improvements. Era 5.0 The halal sector is the solution to the demands of all types of people for halal goods that can meet the problems of contemporary life in the age of society 5.0. Halal industrial products may provide the solution for all sorts of employment that require them, can meet problems in the age of society 5.0, and will be accepted and in demand by the general public (Burhanuddin Al-Butary, 2021).

## **2.2 Method**

This research uses a library research approach; library research creates data collection through research in many literatures. Data collection was done through various reference materials, including book references, journal articles, and previous research. To complete the data analysis, it is carried out by explaining Indonesian Islamic Bank Financing in Increasing Halal-Based Micro, Small, and Medium Enterprises in the Industrial Era 5.0. This structured literature review is based on a method consisting of three steps and leads to the creation of a concept matrix through which academic literature can be evaluated: identifying relevant literature, compiling a review, and developing theory.

## **3. RESULTS AND DISCUSSION**

### **3.1 Halal-Based Micro, Small and Medium Enterprises Financing**

Islamic banks typically take the lead in Islamic finance activities. Islamic Finance includes Islamic banks. Islamic banks are institutions that follow the fiqh muamalah, or Islamic standards for conducting transactions, which are based on sharia (Islamic law). Fiqh muamalah laws and rules are taken from the Qur'an and Sunnah. In addition, fiqh muamalah norms and regulations can also be founded on other sources of Islamic law, like consensus, comparison, and ijtihad (Antaraa et al., 2016). Collection of banking funds is influenced by internal and external factor according Rivai and Arifin, external factors that influence banking fund raising include economic conditions, government activities and conditions, conditions or developments in money markets and capital markets, government policies and Bank Indonesia regulations (Rivai & Arifin, 2010). While internal variables include bank offerings, profit-sharing rules, level of service, office environment, and the reputation of the bank. According to several studies, office location has a beneficial impact on the amount of deposits made into Islamic banks, which is explained by the number of offices that can reach depositors. (Juniarty et al., 2017; Novianto, Abdullah Syakur Hadiwidjojo, 2013).

Financing items are additional services that Sharia banks provide to the public. This product is offered in compliance with Article 4(1) of Law No. 21 of 2008, which lists the duties of Islamic banks, including directing funds away from and toward the community. The regulations state that Islamic banks are prohibited from allocating public funds to ventures that violate sharia law. A fatwa issued by the National Sharia Council of the Indonesian Ulema Council (DSN MUI) also regulates the use of sharia principles in Islamic banking.

MSME actors can access Islamic financial sources to develop their halal products by using financing products owned by Islamic banking. MSMEs are eligible to use specific MSME financing solutions provided by Islamic banks, such as KUR, a joint initiative of the government and banks. To increase the number of MSME actors who have access to funding, particularly those who work in the halal sector, Bank Syariah Indonesia must implement a number of innovations. Some MSME actors will find it simpler to acquire sharia finance as a result. Fintech development may still be practiced in a variety of contexts. However, certain other parts of Indonesia cannot function for a variety of reasons, including issues with literacy, reliable internet connectivity, and more.

The reality that is happening is that the financing program carried out by Bank Syariah Indonesia still does not support the existing halal industry. General form of financing to ordinary micro, small and medium enterprises only. In essence, Bank Syariah Indonesia should support the halal industry which is currently a trend. Moreover, this also supports the government's program to issue halal certification to products produced by producers or micro, small and medium enterprises.

### 3.2 Banking Digitalization in the Industrial 5.0

In this era of digitalization, ease of mobility is one of the conditions for accelerating economic growth. It is undeniable that the public's need for ease of transactions related to finance has also increased, as evidenced by the increase in banking services every year. The faster the transactions, the faster the economic growth and distribution of wealth. With the development of digitalization in all existing sectors, the banking sector cannot escape the influence of technological developments. Currently, the banking world is competing to develop both technology-based products and services (Dharmawan, 2018). Currently, banking services with a touch of digitization, such as *automated teller machines (ATM)*, *SMS banking*, *internet banking*, *mobile banking*, and the use of social media as a marketing tool, are not available until digital products are developed, aiming to improve banking services for the convenience of its customers. *Automatic Teller Machine (ATM)*, *SMS banking*, *internet banking*, and *mobile banking* are in their development known as *Self-Service Technology (SST)* in the banking sector. The digitalization that has developed in banking certainly provides excellent service to every customer when making transactions. In every transaction, economic turnover will occur. In this case, the

advancement of information and convenience in banking has played a very important role in helping accelerate economic growth and equal distribution of prosperity, so that at this time, banking services have become one of the inseparable needs in people's lives (Fuady, 1999).

### 3.3 Halal-Based Micro, Small and Medium Enterprises in Industry 5.0

Digital transformation is the application of digital technology to improve services in a business by changing services from manual processes to digital processes or replacing old technology with newer technology (Rerung, 2018). Digital solutions aim to achieve automation, efficient innovation, and new creativity (Lankshear & Knobel, 2008). Digital transformation requires organizations to change in a more professional manner. Digital technology has a high penetration rate in supporting Islamic financial inclusion and reaching various levels of society, especially segments that do not yet have broad financial access (Rusdianasari, 2018). Convergence between information technology and financial activities is unavoidable and has the potential to dominate most business transactions, including the inclusive financial sector (Werthamer & Raymond, 2003) (Lee & Lee, 2015) (Jang, 2015). The use of digital technology is considered important for creating financing for micro, small, and medium business groups that are not affordable by banks (Miller, 2017). Digital technology has a positive impact on micro, small, and medium enterprises in terms of communicating faster, increasing productivity, building new business opportunities, and being able to connect to global networks (Basry & Sari, 2018a). Digital technology helps micro, small, and medium enterprises in Indonesia grow faster and become more competitive. There is a positive relationship between better use of digital technology and increased income, employment, product innovation, and an increased share of exports (Mumtahana et al., 2017).

Transactions are becoming an increasingly influential factor in consumer behavior when buying products from micro, small, and medium enterprises. In this case, digital technology is increasingly playing an important role in supporting the ease of transactions. The use of digital technology in micro, small, and medium enterprises provides better innovation in terms of promotion, sales transactions, payment, and delivery. The use of digital technology occurs because of the ease of operating applications that are practical and easy to use. The benefits of adopting digital technology are felt directly by consumers and businesses. This happens because orders and payments can be made more quickly without the need to queue orders and wait for payment transactions through the bank.

## 4. CONCLUSION

Micro, small, and Medium Enterprises Financing by Bank Syariah Indonesia is financing provided by business-based Islamic financial institutions, meaning that the



capital is rolled out for working capital. The financing has not yet focused on supporting the halal industry. This is in contrast to the government program that issues halal certification to products produced by producers or micro, small, and medium enterprises. The use of digital technology occurs because of the ease of operating applications that are practical and easy to use. The benefits of adopting digital technology are felt directly by consumers and businesses. This happens because orders and payments can be made more quickly without the need to queue orders and wait for payment transactions through the bank.

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