IMPACT OF ISLAMIC MICROFINANCE INSTITUTIONS ON STRENGTHENING THE HALAL VALUE CHAIN INDUSTRY

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Abstract

Islamic financial institutions are crucial in developing the halal value chain industry. However, this support has not been optimized for Islamic microfinance institutions, especially in the middle to lower-class segmentation. This study aims to analyze the potential and contribution of Islamic microfinance institutions to strengthen the halal value chain industry. Qualitative research methods with descriptive statistical analysis techniques to clarify the analysis. This study found that Sharia microfinance institutions, including Baitul Maal Wat Tamwil, Syariah People's Credit Bank, and Micro Waqf Bank, have significant potential to support the halal value chain industry. Islamic microfinance institutions contribute through the socialization and assistance of the halal industry for micro, small, and medium businesses, financing the halal industry in the trade, restaurant, and hotel sectors and increasing exports through efficiency in production costs.

Keyword: *Halal Industry; Islamic Microfinance Institutions; Strengthening Halal Value Chain Industry*

A. INTRODUCTION

The advancement of halal industry trends in the past years has accelerated significantly. The increasing consumer demand for halal products has increased investment and trade in the industry, involving both local and multinational companies. The global halal industry encompasses halal food and beverages, halal tourism, Muslim fashion, halal media, recreation and pharmaceuticals and cosmetics (Mohi-ud-Din Qadri 2024) , and is anticipated to experience significant growth due to the rising Muslim population worldwide. Promising halal markets are emerging in rapidly developing economies across Asia, the Middle East, Europe, and America, characterized by an expanding consumer base and significant growth (Elasrag 2016), rendering the halal industry a notable focus for the Indonesian government.

Furthermore, one of the efforts to improve the halal industry by managing the halal supply chain activities in all economic activities is an essential component of concern, where all halal supply chain activities need to be managed to extend the halal & tayyib components to the point of consumption with improved performance (Ab Talib, Hamid, and Zulfakar 2015; Khan, Haleem, and Khan 2018; Rusydiana et al. 2023). The supply chain in question can be enhanced through government support, transportation planning, IT, HRM, collaborative relations, halal certification, and traceability mechanisms (Ab Talib et al. 2015). Indonesia, being the largest Muslim demographic, has the capacity to establish a halal business chain (Lestari, Okdinawati, and Simatupang 2018), with the point of spreading the lifestyle of the majority of people who, based on Islamic rules, created a separate place for the halal industry to develop. The significant potential of the halal industry should be effectively utilized to stimulate the economy, particularly the Indonesian economy. The Indonesian halal industry is poised for development into a global market, considering the Muslim population of 1.8 billion.

In line with the development of MSMEs (mentioned above can potentially be exploited by Islamic financial institutions, in this case, Sharia Microfinance Institutions (SMI) which are part of Islamic microfinance more touching the lower class of society (Suzuki, Pramono, and Rufidah 2016) , Among these micro-institutions, are: *Baitul Maal Wat Tamwil* (BMT), Sharia Rural Credit Bank (SRCB) and most recently Micro *Waqf* Bank (MWB). Some of the Islamic microfinance institutions are predicted to be alternatives to support halal production, which can strengthen the chain in Indonesia. Collaboration between SMI and Islamic banking is essential, as the Islamic financial system, via Islamic banking and capital market instruments, will direct their long-term funds to other halal industries (Muhamed et al. 2014). On the other hand, although in this case, Islamic banking also supports the halal industry with a strategy of providing financing to businesses by Islamic banks for developing the halal industry, the role of SMI, which has a broader reach to the people of Indonesia, it is sufficient to be taken into account in stretching the sharia business in the real sector (Riwajanti and Asutay 2015). Sharia-based microfinance institutions, as the intermediation institutions with significant potential to enhance community economic empowerment in terms of the number and volume of businesses, can contribute to strengthening the halal value chain industry.

This paper contributes to studying Islamic financial institutions, particularly micro-Islamic institutions, to strengthen the halal value chain industry. While previously, there have been many studies related to the developing halal industry, discussions regarding the potential and contribution of Islamic microfinance institutions to the halal value chain have not explicitly been discussed in detail.

B. LITERATURE REVIEW

Several studies have been conducted to examine the halal value industry chain from different perspectives, including research conducted by Amir and TjibtoSubroto (2019) where through a comparative study approach to countries that have implemented halal standards, certification, and accreditation, it has been found that in economic and financial activities, especially in Muslim communities, the halal value chain has become an integral and inseparable unit in the process of consumption, production, and distribution. In addition, the theory of the halal value chain in Islamic economics and finance is a theory that not only adopts human values but also makes the efforts of every economic activity not value-free and in accordance with Islamic financial and economic activities.

Another study from Amalia and Hidayah (2020) which investigates the strategy for strengthening the halal industry, where this study seeks to reveal the divergence of the halal industry from Islamic finance in Indonesia with the core problem of the absence of an integrated system between the halal industry and Islamic financial institutions in Indonesia. This research employs the analytical network process (ANP) approach. Research signifies that the regulatory and policy aspects are the top contributor to developing an integrated Islamic economic system. The research implies the need for serious attention from stakeholders to strengthen regulatory and policy aspects to be responsive to developing Indonesia's halal industry to compete at the national and global levels. Apart from that, research from Rahmayati (2020) which analyzes the role of Islamic banking through financing to support the development of such industry in Indonesia, where research using this qualitative method proves that Islamic banking, with its strategies and policies, can help improve and develop the halal industry, specifically through financing offered to customers at Islamic banks.

Based on previous studies, it shows that studies related to the halal industry have discussed both in terms of comparison, strengthening strategies, and the role of Islamic financial institutions such as Islamic banking in developing the halal industry. The study to be discussed in this research is specifically about the analysis of strengthening the halal value chain industry through the role of Islamic microfinance institutions (LKMS). This research specifically takes the scope of the Indonesian territory with a focus on currently operating LKMS such as BMT, BPRS and Micro Waqf Board.

C. METHOD

The research employed a qualitative method with descriptive statistics as its data analysis technique. Statistics comprises a collection of procedures for describing, synthesizing, analyzing, and interpreting quantitative data (Mills and Gay 2019). Meanwhile, descriptive statistics are applied to analyze data obtained by describing them. This method enables researchers to measure and depict the basic characteristics of a data set. Consequently, this method is the first phase in data analysis, allowing researchers to organize, simplify, and summarize data (Allen 2017). In this study, the statistical data collected are secondary data, including BMT financing data in the MSME sector, financing of SRCB in each sub-sector, and data on channeling of MWB. The data is presented in tabular form and analyzed to complete and clarify the analysis. The reasons for selecting Islamic micro-institutions above are based on the dominance of the role of these institutions in strengthening the halal value chain industry.

D. RESULT AND DISCUSSION

Baitul Maal Wat Tamwil (BMT) as the Main Mover of the Halal Value Chain Industry in the Micro Sector

Baitul Maal wa Tamwil (BMT) provides financial services to the public that are not reached by banking or unbankable services (Kholis 2012). The system and function of BMT are not much different from cooperatives. BMT is also often equated with sharia cooperatives because BMT upholds the principles of sharia in its operational activities. The existence of BMT in Indonesia will always be related to the role of various parties, especially regulators, associations, managers, members, and the community.

Table 1: Financing based on Type of Usage and Business Category of Sharia Commercial Bank and Sharia Business Unit Bank (In Billion IDR)

Type of Usage and Debtor Group	2022	2023
1. Working Capital	32.630	29.584
a. MSMEs	10.191	6.406
b. Non MSMEs		
	22.439	23.178
2. Investment	26.957	32.775
a. MSMEs	7.219	4.786
b. Non MSMEs		
	19.738	27.988
Total Funding	119.174	124.717

Source: Sharia Banking Statistics 2019 (Otoritas Jasa Keuangan (OJK), 2023)

Based on the table above, the development of Islamic business unit financing for both working capital and investment in MSMEs and non-MSMEs has increased in the last 2 (two) years. The data also shows the potential and opportunities for BMT to develop funding for micro-sharia businesses, which are the main drivers of the real sector's activities as a reinforcement of the halal value chain industry. BMT, in this case, can centralize business financing through *musharakah* and *mudharabah* contracts with a competitive profit-sharing rate and improve service to customers to attract more customers. Also, in supporting the main supply of halal businesses, BMT innovates financing products with financial technology so that service coverage can be more comprehensive (Dai 2014).

Sharia Rural Credit Bank (SRCB) and Support for Halal Value Chain Industry Business Financing

SRCB Syariah is focused on serving micro and small businesses that want easy processes, fast services, and light requirements. This institution in Indonesia is better known as Bank Perkreditan Rakyat Syariah (BPRS). SRCB has an officer who functions as a fleet of deposits and withdrawals of savings/deposits, including installment payments. This service is very relevant to the needs of MSEs who tend not to be able to leave their daily businesses in the market/shop/house. SRCB can potentially strengthen the halal value chain industry by providing business loans as working capital for halal industry businesses. Strengthening the halal value chain in the trade sector focuses on the Muslim fashion industry, halal cosmetics, and cosmetics, while the restaurant and hotel sectors concentrate on the halal food and beverage industry. The friendship between the customer and the company can become a value system that guarantees business sustainability. SRCB can build a business with financial technology (fintech), which has taken control of the market with its technology (Naifar 2019). This can save operational costs while also growing ecosystems that embrace one another rather than competing.

Table 2: Financing of Sharia Rural Bank based on Economic Sector (in Million IDR)

Sector	2022	2023
Agriculture, forestry, and agricultural rural facilities	374.467	352.183
	19.889	24.868
Mining	119.758	195.256
Manufacturing Water, gas, and	13.104	15.744
electricity	694.666	837.920
Construction	**2.032.457**	**2.057.486**
Trade, restaurants, and hotels	103.582	121.249
Transport, cargo storage and Communication		
	618.505	837.168
Business Services	769.445	867.495
Social Services	4.338.594	4.768.725
Others		

Total Funding	9.084.467	10.078.094

Source: Sharia Banking Statistics 2019 (Otoritas Jasa Keuangan (OJK), 2023)

The data in Table 2 above shows the increase in financing by the SRCB in various sectors during 2022 - 2023, with the biggest growth in financing the trade, restaurant, and hotel sectors. Strengthening the halal value chain in the trade sector focuses on the Muslim fashion industry, halal cosmetics, and cosmetics. In contrast, the restaurant and hotel sectors concentrate on the halal food and beverage industry.

Micro Waqf Bank and Capital Innovation for People: Solutions for Strengthening Halal Value Chains Through Pesantren-Based Assistance Patterns

Micro Wakaf Bank is an Islamic microfinance institution that funds small communities. This voluntary financing instrument has created a space of funds and property managed by a designated authority (supervisor) for Sharia compliance charity activities (Mahat, Jaaffar, and Rasool 2015). Specifically, in Indonesia, the Financial Services Authority (OJK), in collaboration with the National Amil Zakat Institution (Laznas) formed an Islamic Microfinance Institution (LKMS). Based on data from Sharia Banking Statistics 2022 (Otoritas Jasa Keuangan (OJK) 2023), the micro waqf bank has positively changed at least 41 (forty-one) boarding schools spread across Java, Sumatra, Kalimantan, Sulawesi, and Papua. As of December 31, 2018, there were 9,201 customers with a total of IDR 12,385 billion in disbursed financing. This increased compared to the end of December 2021 when there were only 827 customers with a financing value of around IDR. 586 million. Java Island is a potential area to be developed as a halal industrial zone because many industrial zones are already available.

Micro waqf in Indonesia possesses significant potential in supporting the strengthening of the halal value chain industry through community economic empowerment that focuses on empowering productive poor communities through microfinance and financing, where other data also shows that regions with a majority of Muslim population tend to have poverty levels which are above the national average. Waqf also has the potential that it is no less great to bolster the progress of the halal value chain industry in Indonesia. With the relatively flexible characteristics of its use, the potential for waqf is far greater even though its collection is still relatively low compared to its potential.

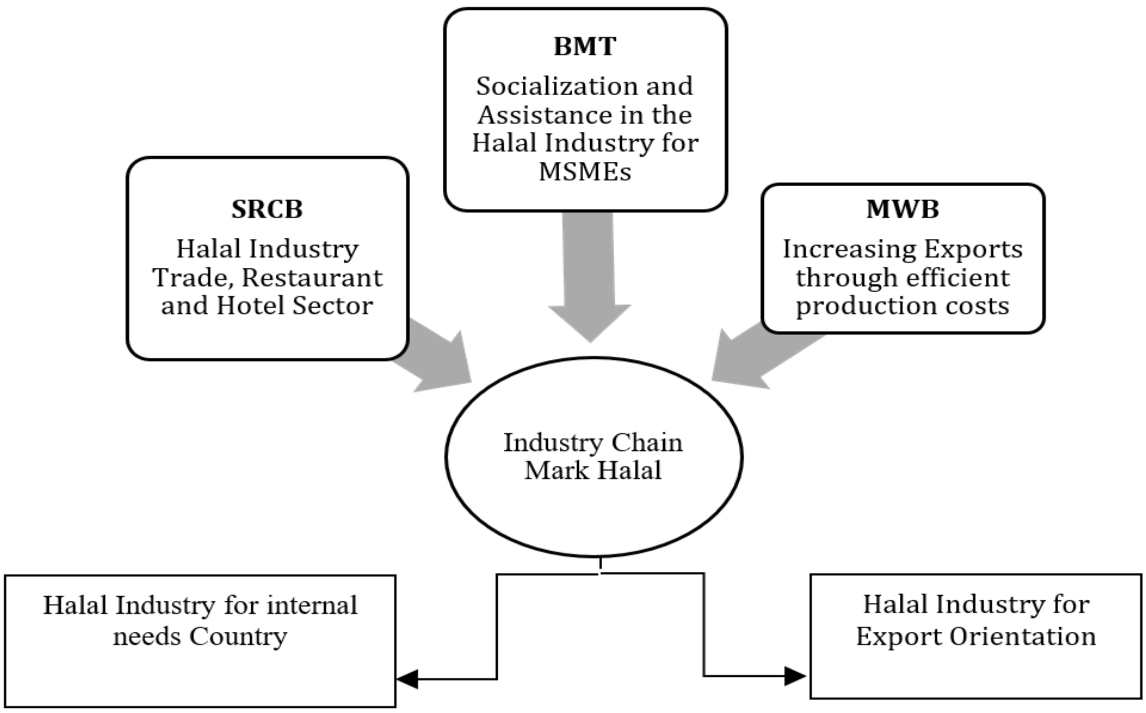

Figure 1: LKMS Contribution to Strengthening the Halal Value Chain Industry

Based on the picture above, each Islamic microfinance institution's unique characteristics contribute to strengthening the halal value chain. In general, Islamic micro-institutions focus on micro and small businesses. Still, to strengthen the halal value chain industry ecosystem, it is necessary to have a business matching scheme to connect the supply of Sharia business products and the demand of the domestic, regional, and global markets. The development of the halal industrial zone is not only intended to satisfy domestic needs but also aims to produce export-oriented products, especially to countries in the Middle East region, which are still dominated by halal products made in China and Thailand. Islamic microfinance institutions have an essential role in developing the halal industry, particularly in empowering SMEs, being the core of populist-based economic power, and simultaneously being the primary buffer of the national economic system.

E. CONCLUSION

The central role of Islamic microfinance institutions such as BMT, SRCB, and MWB in sustaining the halal supply chain industry can be strengthened by developing products and services in the MSMEs business sector towards a better direction to improve export quality and be able to compete globally. Aligning micro-business financing programs that have been or will be owned by Islamic financial institutions so that they are MSMEs, small, and medium enterprises, where Islamic financial institutions based on Islamic values are binding (especially Muslim entrepreneurs) to produce halal products and services, which can indirectly strengthen the halal value chain industry. On the other hand, the contribution of Islamic microfinance institutions can contribute to the following supporting sectors to strengthen the halal value chain industry

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