

Strengthening The Role of Sharia Small and Medium Enterprises in The Global Halal Supply Chain

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Abstract. This study explores strategies for the development of Sharia-based Micro, Small, and Medium Enterprises (MSMEs) within the context of Indonesia's ambition to become the center of the global halal supply chain. Employing a qualitative descriptive methodology, the research is based on secondary data from scientific journals, official reports, and relevant regulations. The study identifies the critical need for enhanced access to Sharia-compliant financing and capital sources as a key factor in enabling MSMEs to integrate effectively into the halal industry ecosystem. By ensuring that MSMEs adhere to Sharia principles, particularly in financial transactions, the study argues that these enterprises can produce higher quality products, increase their competitiveness, and contribute significantly to national economic development. The findings suggest that collaboration between the government, Sharia financial institutions, and the public is essential to fostering the growth of Sharia-based MSMEs, thereby supporting Indonesia's strategic objectives in the global halal market.

Keywords: Strategy, MSME, Industri, Global

1. Introduction

The growth of the global Islamic economy has increased, one of the indicators of which is the amount of spending carried out by the world's Muslim community. The need for products produced from Islamic economic activities is increasing, whether in the form of services or goods produced based on sharia principles. The actual spending of 1.9 billion Muslim communities has increased, where in 2020 the increase in the value of spending in several sectors, namely the food, health, cosmetics, media/recreation, fashion and travel sectors outside of sharia finance reached 7.8%. . In 2021, Muslim community spending will experience year-on-year growth of 8.9% compared to 2020 and in the following year, 2022, of 9.1%. Muslim community expenditure is estimated to reach US\$2.8 trillion in 2025 with a 4-year Cumulative Annual Growth Rate (CAGR) of 7.5% (BAZNAS, 2024).

The growth of the global Islamic economy is a contribution from 81 Muslim countries in the

world which continue to develop a stronger Islamic economy. Indonesia is one of the countries that occupies the top ten positions as a country contributing to this growth in several sectors. This is known from the 2023/2024 State of the Global Islamic Economic Report (SGIE), where Indonesia is in the top 10 categories in the Islamic finance, halal food, modest fashion, pharma and cosmetics, and media and recreation sectors. Indonesia has the potential to continue to grow and can reach the center of the Islamic economy in the world. This can be seen according to the Global Islamic Economic Indicator (GIEI) report for 2023.2024, for several sectors Indonesia is in fourth position compared to other Muslim countries. Several other factors that support Indonesia being able to reach the center of the global Islamic economy are the largest number of Muslims in Indonesia in the world, a wide demographic with strong religious beliefs, high population growth, the potential for social funds that have not been optimally utilized, and Indonesia being a generous country that quite high (INDEF, 2022).

To achieve a global Islamic economic center, in accordance with the Indonesian Halal Industry Master Plan for 2024-2029, several strategic steps continue to be taken by the government, including a strategy to accelerate the development of the halal industry as outlined in the Medium Term Government Plan for 2024-2029 with several annual programs to achieve the RPJM. One of the halal industry development strategies is to increase productivity and competitiveness with four programs that must be realized, namely human resource development, strengthening the halal value chain, strengthening halal industry players which include Micro, Small and Medium Industries/Enterprises (I/MSMEs) and Islamic boarding schools, as well as strengthening innovation and technology-based halal business startup incubation; and (iv) Increasing research and innovation.

Strengthening halal industry players which includes industry/MSMEs into a halal industry development program which of course MSMEs in this case are sharia-based MSMEs where business activities and products produced must not conflict with sharia principles, namely avoiding usury, maysir, ghoror and principles of justice. The objectives achieved are also in accordance with the maqoshid sharia. Strengthening in this case is not only related to the number of sharia-based MSMEs, but quality matters must also be developed, such as human resource competency development, sharia-based financial sources, the products produced must be certified as halal by having halal certification, and business activities always prioritizing sharia principles and aiming to comply with sharia maqoshid. With this program, sharia MSMEs become one of the drivers of achieving global halal industry growth which has an impact on Islamic economic growth both nationally and globally (Ayyagari Demirgüç-Kunt & Maksimovic, 2011). The role of MSMEs is also to drive the contribution of a country's GDP value (Al Balushi, Locke & Boulanouar, 2019); (Ramadhan & Sukmana, 2019). Several researchers also said that when MSMEs have sufficient capital, MSMEs will be easier to expand their business, invest in the equipment needed for their business activities so that they have the potential to increase business results, and finally MSMEs will be a solution in overcoming problems related to unemployment and poverty (Sabiu & Abduh, 2021; Haron & Ibrahim, 2016)

Currently, in order to realize the strengthening of sharia MSMEs, there are problems that will become obstacles in realizing the program to strengthen halal industry players. The lack of resources to develop sharia business is still often found in sharia MSMEs, which include human resources, resources in the form of capital, and the necessary infrastructure (Muhmad et.al, 2020). Access to financing sources such as sharia banks is also still experienced by sharia-based MSMEs (KNEKS, 2024). This is due to the existence of requirements and documentation that

are not yet available as well as a lack of guarantees (Muhmad et.al, 2020; Haron & Ibrahim, 2016). Lack of readiness and attitude of managers who do not yet have an understanding of activities that are in accordance with sharia principles (Muhmad et.al, 2020). The problem of limited sources of external financing and limits on the amount of borrowing is also still faced by sharia MSMEs (Beck & de la Torre, 2007). MSMEs also have the potential to be rejected when borrowing due to insufficient cash flow and unclear business plans (Kandasamy, Lee & Jer, 2018). Some MSMEs do not dare to take out loans because the loan costs that must be repaid are too high. This is not comparable to the relatively small profits obtained from MSME businesses, especially start-up MSMEs (Wassiuzaman & Nordin, 2019; Kandasamy et al., 2018). The difficulty of access to banks as a source of external financing means that MSMEs cannot carry out their functions optimally and become an obstacle to development (Bazza, Maiwada, & Daneji, 2014; Beck, Demirgüç-Kunt and Maksimovic, 2008).

Based on the phenomenon above, this research will analyze the strategies and efforts that need to be made to develop sharia-based MSMEs by providing solutions to the problems described in the previous paragraph. The solutions and strategies that will be analyzed include how to increase the capacity of human resources, make it easier to obtain access to capital from sharia financial institutions, realize sharia-based business activities, and produce halal products that are recognized and trusted by the public.

Research related to sharia MSMEs has been carried out by previous researchers. Research related to the development of sharia-based MSMEs is related to increasing capital sources originating from external sharia-based borrowers, where it is stated that sharia-based MSMEs generally experience obstacles in their efforts to obtain capital from external sharia financial institutions. Research related to this provides solutions to external borrower sources that can possibly overcome this problem and its effectiveness (Ramdhan et.al, 2019; Sabiu and Abduh, 2021; Haron and Ibrahim, 2016; Yanti, 2015). Other research related to Sharia MSMEs was also conducted by Muhmad et.al (2020) who studied the challenges and opportunities in optimizing the potential of Sharia MSMEs (Muhmad et.al, 2020). The difference with this research is that the analysis carried out is not limited to finance which is a source of capital for Sharia-based MSMEs, but this research focuses on solutions outlined in strategies to overcome human resources, problems related to obtaining sharia-based capital/funds from external parties, as well as improving public trust in products through halal certification of the products produced.

2. Literature Review

Micro, Small Medium Enterprises are a form of business that has limitations in terms of size or number of employees, size of assets owned, amount of capital, and annual turnover achieved (Kasekende & Opondo, 2003; MTIC, 2015; Tumwine et.al, 2015; Turyahiko, 2015). The characteristics of these elements of course differ in each country, such as the European Commission (2015) and OECD (2005) define SMEs as companies that employ less than 250 people, with an annual turnover not exceeding EUR 50 million, and an annual balance sheet total not exceeding EUR 43m.

MSMEs in Indonesia consist of Micro Enterprises, Small Enterprises and Medium Enterprises, each type of business has different definitions and criteria regulated by law. Micro businesses are productive businesses owned by individuals and/or individual business entities with a maximum turnover value of 300 million, maximum asset value of 50 million. Small businesses

are productive economic businesses that stand alone, carried out by individuals or business entities that are not subsidiaries or branches of companies that are owned, controlled, or are part, either directly or indirectly, of medium or large businesses. Assets: 50 million - 500 million, Turnover criteria: 300 million - 2.5 billion rupiah. Medium Business is a productive economic business that stands alone, which is carried out by individuals or business entities that are not subsidiaries or branches of companies that are owned, controlled, or share either directly or indirectly with Small Businesses or large businesses with large amounts of wealth. net or annual sales proceeds as regulated in this Law. Asset criteria: 500 million - 10 billion, turnover criteria: >2.5 billion - 50 billion rupiah (Law No. 20 of 2008).

The existence of MSEs in Indonesia has a very important role and contributes to overcoming various economic and development problems in Indonesia, including overcoming the problem of unemployment where every year the number of unemployed people in Indonesia is decreasing, with the reduction in unemployment in Indonesia, the average national income of the people is decreasing. increase. MSMEs also play a role in alleviating poverty, reducing disparities in income distribution, and improving community welfare (Indika & Marliza, 2019; Krisnawati, 2016; Sarfiah et al., 2019; Setiawan, 2017; Tambunan, 2012).

Sharia-based MSMEs are micro businesses, small businesses and medium businesses which carry out their business activities based on sharia principles. The sharia principles in question are principles that avoid the practice of maysir, ghoror, and usury and applying the principles of justice (Machmud and Hidayat, 2020). In this regard, sharia-based MSMEs apply sharia practices in terms of acquiring capital sourced from capital providers that also apply sharia principles, for example sharia banks or other sharia financial institutions. Apart from that, the products produced are halal products and the activities carried out implement the values of worship.

3. Discussion

Before discussing this, the research method used is a qualitative method with descriptive writing (Sugiyono, 2007). The data used in writing this scientific work is secondary data originating from searches of reputable scientific journals, books, official statistical news, reports and other policies/regulations. Data collection techniques are through literature studies, documented, then interpreted by considering relevant regulations and the advantages of the parties involved in the proposed model. The analysis used is content analysis, namely an in-depth analysis of the potential for developing sharia-based MSMEs to support national development in Indonesia so that Indonesia can become the center of the global halal industry by developing the strategies needed to make it happen.

Discussions related to the development of sharia-based MSMEs will focus more on strategies for expanding access to capital and sources of sharia-based financing from external parties, strategies for developing human resource competencies, and strategies for producing halal products.

3.1. Increased Access to Sharia Financing and Capital Sources

The phenomenon explained in the background section states that one of the problems faced by MSMEs which makes it difficult for MSMEs to develop is the difficulty of access to additional

capital and financing from financial institutions, which in this case are sharia banks. This was conveyed by several previous researchers that the difficulty of access to banks as a source of external financing makes MSMEs unable to carry out their functions optimally and becomes an obstacle to development (Bazza, Maiwada, & Daneji, 2014; Beck, Demirgüç-Kunt and Maksimovic, 2008). When MSMEs have sufficient capital, MSMEs will be easier to expand their business, invest in the equipment needed for their business activities so that they have the potential to increase business results, and finally MSMEs will be a solution in overcoming problems related to unemployment and poverty (Sabiu & Abduh, 2021 ; Haron & Ibrahim, 2016).

The development of sharia-based MSMEs which are ready to become a part of the halal industrial ecosystem which has an impact on the acceleration of national development, the aspect of capital sourced from sharia financial institutions is something that needs to be considered. Sharia-based financial sources mean that MSMEs will avoid maysir, ghoror and usury. This is an indicator of MSME business activities producing halal products. This is because the cost of the product, which includes raw material costs, labor costs and factory overhead costs, will be free from interest if the source of financing is a sharia bank loan. As we know, conventional accounting recognizes the term interest capitalization in determining the acquisition price of self-built assets, in this case Plant Property Equipment (PPE). So if an entity builds buildings and equipment with financing from conventional banks, the interest paid during the construction period in accordance with PSAK will be capitalized to add to the acquisition price of the asset. This asset will be used in operational activities and part of the costs including interest is allocated to the price of the product itself.

The role of Sharia Financial Institutions, both the sharia banking industry, sharia insurance, and other sharia financial institutions is very important to develop sharia-based MSMEs in terms of capital and financing (Chittithaworn et.al, 2010). By having capital and easy access to financing, the products produced will have good quality and in terms of efficiency, this will be realized. Sharia MSMEs will be able to compete both at the national and international levels because the level of trust from the community will grow with a high level of satisfaction with products and services. The role of LKS is very important as an intermediary between customers and MSMEs. Sharia financial institutions mostly provide financing for the business sector, and have the ability to reach micro businesses. This is an advantage of sharia banks which in general is still rarely done by conventional banks (Wahab and Mahdiya, 2023).

One of the strategies that needs to be carried out by the government as a regulatory body and the sharia financial industry, especially sharia banks, is increasing cooperation between the government and sharia banks to continuously encourage the growth and development of sharia-based MSMEs. The role of the community is also needed in this case so that they contribute more in consuming products produced by MSMEs and also start becoming customers of sharia banks. This can overcome all the problems faced, especially in developing countries, quickly and efficiently. The sharia banking industry can initiatively develop various sharia financing models, such as financing from micro banks, P2P lending, sharia fintech, to help micro, small and medium enterprises (MSMEs) increase their capital. The Indonesian government and KNEKS offer a prospective solution for the progress of Indonesian MSME businesses by establishing a capital source policy that can be obtained from ZISWAF funds managed by LAZ, BAZNAS, Nazir, BWI, and sharia banks that have UPZ. This funding source is specifically for beginner sharia MSMEs and those just starting their businesses. Meanwhile, for middle and

upper MSME categories, the government encourages sharia banks to issue financing products tailored to the size of the MSME business.

3.2. Human Resource Development

Problems related to the human resources possessed by sharia MSMEs, which make it difficult for MSMEs to develop, have been presented by several previous researchers. The lack of human resources in quantity to develop sharia business is still often found in sharia MSMEs (Muhmad et.al, 2020). The lack of readiness and attitude of managers who do not yet have an understanding of activities that are in accordance with sharia principles means that sharia-based MSMEs are still limited in number (Muhmad et.al, 2020). Opinions that have similarities relate to the fact that leadership competence in MSMEs is still low, especially in the fields of sharia and technology (Febriani and Sa'diyah, 2021). MSME actors also still have an attitude of rejection towards technological advances or businesses based on digitalization (Ostmeier & Strobel, 2022), (Maier & et.al, 2015).

The condition of the lack of competence related to technology is also supported by the East Ventures Digital Competitiveness Index (EV-DCI) 2022 report which provides information that Java is the island with the highest number of MSMEs that utilize technology to operate their business activities. The average internet usage for MSMEs is 49 points on a scale of 0-100. However, for other areas, the utilization index is still far behind MSMEs in Java, such as the Maluku and Papua regions which have internet utilization points by MSMEs of 10. According to the report, geographical conditions are one of the challenges in providing a qualified internet connection for MSMEs. The lack of MSMEs that use technology and the digitalization process can be seen in the following picture.

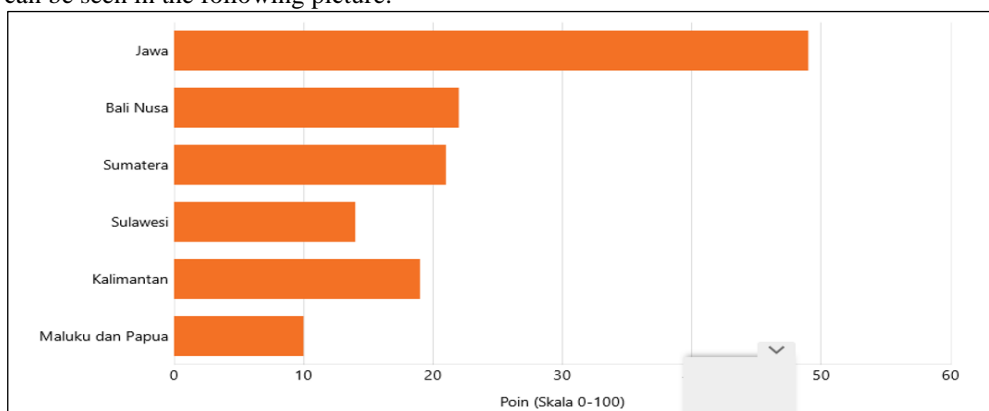


Figure 1. Technology Utilization Index by MSMEs Source: EV-DCI Report, 2022

Not all of the MSME business sector utilizes technology, this is based on information from Boston Consulting Group (BCG) and Telkom Indonesia reports, MSMEs in the food and beverage sector have the highest adoption of digital technology compared to other sectors, namely 71% of MSME respondents in the food and beverage sector utilize digital technology to find suppliers, and 69% use it to reach customers. This is the highest percentage compared to other sectors.

The strategy that needs to be implemented to improve MSMEs that use digital-based technology in carrying out their business activities is to continuously and intensively provide literacy and

technical guidance related to technology to the human resources owned by MSMEs. Apart from that, it is also necessary to develop simpler digital-based applications for activities ranging from production to product marketing. Infrastructure to support this also needs to be prepared. The role of the government, MSME players, academics and the community plays an important role in supporting this goal in accordance with Indonesia's sharia economic master plan, namely the economic digitalization program with a focus on sharia fintech.

3.3. Halal Output Productivity Strategy

Several indicators used to show output, especially goods products, are that the basic materials used must be halal, the production process must avoid substances containing materials other than those that are not halal, for example the tools used for production, and the production financing process must also avoid usury element. Halal in terms of the basic materials used and the production process, every MSME must have halal certification, but until the end of 2023, MSMEs that have halal certification have not yet achieved the expected target. Only 5.8 percent of the 64.19 million MSMEs in Indonesia have business identification numbers, which has resulted in low ownership of halal certificates and SNI (Prasetyadi, 2023). According to GAPMMI (Food and Beverage Entrepreneurs Association), of the 1.6 million small food and beverage industry players, only around 10% have halal certification. This shows that there are still many MSMEs in Indonesia that have not been halal certified.

Saudah, Noer (2023) said that halal certification is an action to guarantee the halalness of a product or service which is very important for the Muslim community as the main consumers of halal products. The legal basis for implementing halal certification in Indonesia includes Law Number 33 of 2014 concerning Halal Product Guarantees, Government Regulation Number 31 of 2019 concerning the Halal Product Guarantee System as well as Regulations, Decree of the Minister of Religion Number 13 of 2019 concerning Technical Guidelines for the Implementation of Halal Certification. This legal basis aims to provide guarantees to the public that the products consumed or used are halal and meet the specified halal requirements. If there is a violation or fraud in a halal certified product, the relevant government will follow up on the business actor by giving him a prison sentence of 5 years or a maximum fine of IDR 2,000,000,000.00 (two billion rupiah).

Various efforts and strategies have been carried out by the government to accelerate the increase in the number of MSMEs that have halal certification, such as providing continuous support to micro, small and medium enterprises (MSMEs), simplifying the application process to obtain halal certification is also important. Currently, the government is creating a certification application procedure that is provided free of charge, with the aim of reaching a total of one million certifications. This effort certainly aims to advance halal business so as to provide a competitive advantage for every micro, small and medium enterprise (MSME).

In addition, the government offers support services to Micro, Small and Medium Enterprises (MSMEs) to facilitate the smooth halal certification application process. BPJPH has launched various programs to seek halal certification for MSEs, one of which is reducing halal certification registration fees and launching a Free Halal Certification (Sehati) program for 10 thousand MSEs. Apart from certification services, improvements are also being made in the field of monitoring and fostering halal product guarantees. To date, BPJPH has collaborated with 151 Halal Product Process Assistance Institutions (LPPPH) consisting of Islamic organizations and universities. BPJPH has also certified 344 halal supervisors and 18,248 Halal

Product Process assistants (PPH). To ensure standardization of halal product guarantees, BPJPH also has approximately 497 certified halal auditors.

The following is data on MSMEs that have halal certification which can be seen in figures 2 and Table 1

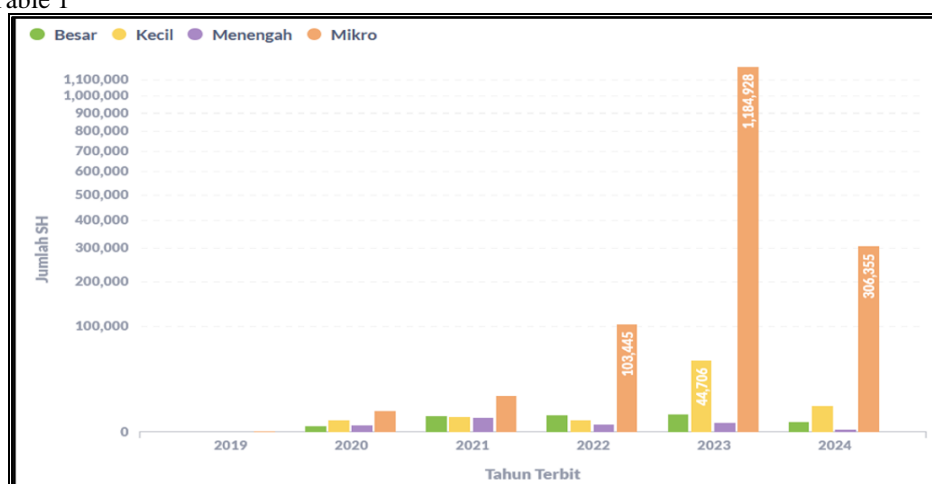


Figure 2. Halal Certification Data

Source: Saudah, Noer 2023

Based on the data in Figure 2, 2023 is the highest data in which MSMEs have halal certification. This is the result of several programs that have been issued by the government, especially the free halal certification program. The assistance provided to MSMEs has had a significant impact on increasing halal certified MSMEs. Below is also presented data on the number of MSMEs certified to standards by region.

Table 1. Data on The Number of MSMEs Certified

Marketing Area	Halal Certification Number	Product Number
Regency/City	1.434.119	2.581.553
Province	148.561	697.031
National	89.008	781.387
International	6.227	214.050

Source: Saudah, Noer. 2023

4. Conclusion

The study identifies the critical need for enhanced access to Sharia-compliant financing and capital sources as a key factor in enabling MSMEs to integrate effectively into the halal industry ecosystem. By ensuring that MSMEs adhere to Sharia principles, particularly in financial transactions, the study argues that these enterprises can produce higher quality products, increase their competitiveness, and contribute significantly to national economic development. The findings suggest that collaboration between the government, Sharia financial institutions, and the public is essential to fostering the growth of Sharia-based MSMEs, thereby supporting Indonesia's strategic objectives in the global halal market.

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