
DEVELOPMENT OF THE HALAL INDUSTRY IN INDONESIA: THE ROLE OF SHARIA RURAL BANK

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Abstract

This study scrutinizes the role of Sharia Rural Banks in encouraging the development of the halal industry in Indonesia through the influence of credit disbursement and third-party funds collected by Sharia Rural Banks (BPRS). The halal industry has significant potential and requires financing based on sharia principles to create a synergy between the halal industry and sharia finance. BPRS sees a high priority in assisting the development of the halal industry because it is intended for the general public and small entrepreneurs who are not accessible to commercial banks. The research methodology employed in this study is quantitative, using multi-linear regression analysis (Ordinary Least Square) to determine the relationship between the credit disbursement of BPRS as well as third-party funds and the development of the halal industry in Indonesia. The results of the study indicate that the credit disbursement and the third-party funds collected by the BPRS have a significant role in the growth of the halal industry in Indonesia. This study advised more adaptive training in the future.

Keywords: *Sharia Rural Bank (BPRS), Financing, Third-party Funds, Halal Industry*

Introduction

The halal industry must follow the principles of the halal economy in its internal and external practices. This includes ensuring that materials, financing, and financial transactions follow Islamic law. The external aspect also requires the avoidance of practices that are forbidden in Islam such as corruption, crime, disobedience, or other sharia violations, and mixed with prohibited materials including sources of financing (Sukoso et al., 2020). Specifically, halal industry actors must fulfill the *kehamsu halaalaat*, including human resources, raw materials, processes, and financing. These elements should synergize to create a sustainable industry. However, the Indonesian Halal Lifestyle Center (2022) states that one of the challenges faced by the halal industry in Indonesia is that there is still limited synergy between the halal economic sector and sharia finance.

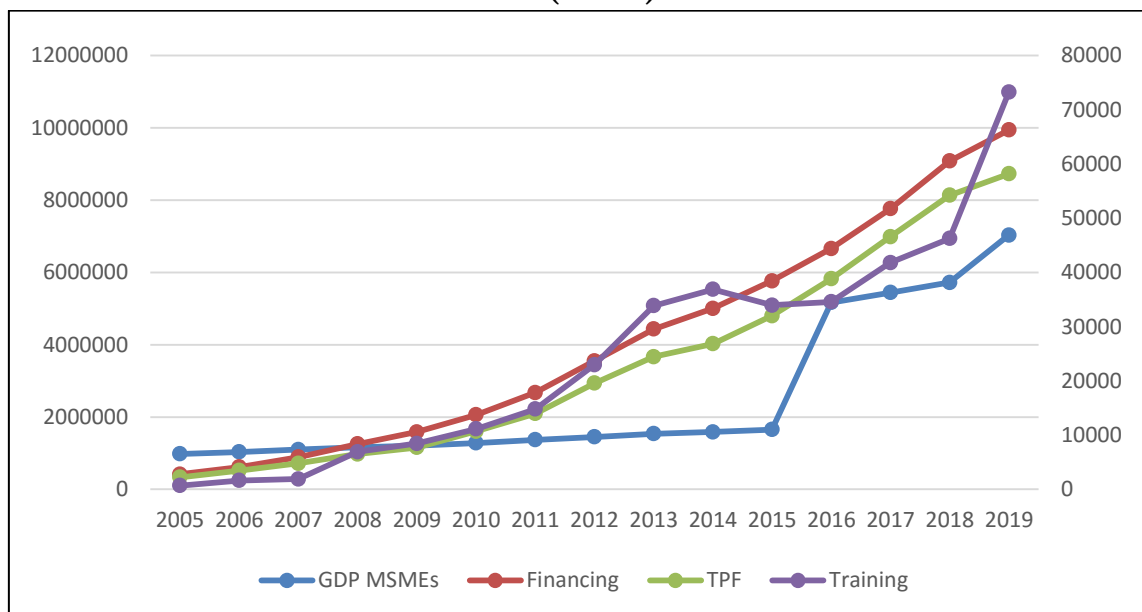
In Indonesia, Micro, Small, and Medium Enterprises (MSMEs) dominate the halal economic sector, which consists of recreation, polite fashion, travel, and food. The good development of MSMEs is determined by the role of financial institutions in mobilizing funds and savings so that the allocation of funds becomes more efficient. Although MSMEs play a dominant role in the halal industry, they face challenges in accessing formal financial institutions for financing, especially commercial banks. Financing is

undoubtedly a barrier to the development of MSMEs in assisting the development of the halal industry, as MSME actors are generally small and medium-sized communities that find it difficult to obtain financing from commercial banks, both conventional and Islamic financing. MSME actors' limitations, including limited collateral, difficulty accessing financing sources, illiteracy, and difficulty applying for financing at commercial banks, make it difficult for MSMEs to contribute to the halal industry in Indonesia.

Research by Asiyah (2020) found that financing from Sharia banks has no influence on the development of MSMEs in the halal industry. The limited access to financing sources and low literacy among MSMEs are some of the reasons why Sharia banks cannot support the development of the halal industry in Indonesia. Nurhidayat (2011) reported that 35% of the problems faced by MSMEs in Indonesia stem from a lack of capital. Sharia Rural Banks (BPRS) was established to serve communities and MSMEs who are unable to access commercial banks.

BPRS is intended for the lower-middle-class community that is still unaffected by commercial banks to improve the welfare of the Muslim community through funds collected, channeled financing, and fostering Islamic *ukhrawah* or economic training to the community. Figure 1 depicts the Third-party Fund (TPF) and the credit disbursed by BPRS.

Figure 1
Third-Party Funds, Credit Disbursement, and Training carried out by Sharia Rural Banks (BPRS) 2005-2019



Source: OJK, BPS, and BI

The credit disbursement provided by BPRS has the potential to enhance production and foster growth in local businesses. Furthermore, the lower middle class can accumulate savings until they have sufficient funds to either start a business or expand their existing one, leading to increased income. The BPRS also provides education, coaching, or training to the community to develop Human Resources (HR) in the banking

sector which includes operations, management, and marketing. Education related to finance, primarily based on sharia finance, will encourage alignment between MSMEs and halal financing so that *the khamsu halaalaat* in the halal industry can be realized and fulfilled. Many studies have been conducted on how banking and microfinance can support the increased income of MSMEs (Ula & Maulida, 2022; Cull et al., 2007; Yussuf, 2017; Yasin, 2020). Despite the potential benefits, there is a lack of research specifically investigating the influence of microfinance through Sharia Rural Banks on the growth of the halal industry in Indonesia.

The majority of the halal industry in Indonesia is comprised of MSMEs, with 57,000 such enterprises being partners of LPPOM MUI across various regions. This presents an opportunity for Sharia Rural Banks (BPRS) to contribute to the development of the halal industry in Indonesia, for instance, by providing easy access to capital through financial technology and sharia crowdfunding.

Studies conducted by Maryati (2015) and Ariani et al. (2019) highlight the significance of financing access provided by Sharia Rural Banks to MSMEs. This access leads to an increase in production value for MSMEs, as an increase in assets leads to a corresponding rise in production value.

However, despite Micro, Small, and Medium Enterprises (MSMEs) dominating the halal industry in Indonesia, their access to financing from Sharia Rural Banks (BPRS) remains limited, accounting for just 5.1% of total financing disbursements (Rp. 52.4 trillion). Yet, the contribution of MSMEs to Indonesia's Gross Domestic Product (GDP) has risen to 60.5%. Despite the potential role of Sharia Rural Banks (BPRS) in supporting the development of the halal industry in Indonesia through financing for Micro, Small, and Medium Enterprises (MSMEs), little research has been conducted to evaluate BPRS involvement in financing MSMEs and its influence on MSMEs' production value and the Gross Domestic Product (GDP) (GDP). This creates a gap in understanding the halal industry's and the economy's influence on BPRS financing.

Research Methods

This study employs a quantitative research approach, relying on numerical measurements of variables and statistical analysis to test theories. The data used in the study is secondary and encompasses a time series from 2005 to 2019, with restricted availability of data being the rationale behind the choice of this period. The data sources include Bank Indonesia (BI), the Central Bureau of Statistics (BPS), the Ministry of Cooperatives and MSMEs, and the Financial Services Authority (OJK)'s publication of Indonesian Bank Statistics and Islamic Banking Statistics. The scope of the research is confined to Indonesia, to examine the influence on a macro level. The regression equation in this study is as follows:

$$Y = \alpha_0 + \alpha_1 X_1 + \alpha_2 X_2 + \alpha_3 X_3 + e_i$$

$$\text{GDP_MSMEs} = \alpha_0 + \alpha_1 \text{TPF}_1 + \alpha_2 \text{Financing}_2 + \alpha_3 \text{Training}_3 + e_i$$

The independent variables used in this study are Third Party Funds (TPF) collected (TPF), credit disbursement (Financing), and education and training costs carried out by

the Sharia Rural Bank (Training), while the dependent variable in this study is Gross Domestic Product (GDP) of MSMEs is priced on a constant basis (GDP_MSMEs) to see the contribution of BPRS to small and medium enterprises. The selection of the contribution of MSMEs to GDP describes the business sector that is in line with the objectives of the BPRS and considers the potential contribution of MSMEs to the halal industry. While α is a constant and e_i is an error term.

The operational definitions of several variables used in this study include using the Gross Domestic Product generated from the Small and Medium Enterprises (MSMEs) sector based on constant prices in 2010 in units of billions of Rupiah. Data on Third Party Funds used in the amount of TPF at Sharia Rural Banks consisting of iB Wadiah savings, iB Mudharabah savings, and Mudharabah deposited in million Rupiah. The financing used in this study is iB financing data distributed by Sharia Rural Banks (BPRS) to private parties in millions of Rupiah. Meanwhile, the training data is data on education and training costs conducted by Sharia Rural Banks for Business actors in millions of Rupiah. The analytical method used is multiple linear regression or Ordinary Least Squares (OLS) using the statistical software program EViews. In addition, this research uses library research and documentation studies in collecting data, evaluating, and analyzing various information needed from various literature relevant to this research.

Result and Discussion

This study employs the Ordinary Least Square (OLS) method to ensure unbiased estimator results and meet the BLUE criteria. To this end, the study conducts a classical assumption test, including tests for normality, multicollinearity, heteroscedasticity, and autocorrelation. The normality test, using the Jarque-Bera method, reveals a probability of 0.685, which is greater than 0.05, indicating that the data is normally distributed. The heteroscedasticity test, using the White test, yields a probability of 0.875, which is greater than 0.05, and thus the model is deemed free of heteroscedasticity. The autocorrelation test, using the Breusch-Godfrey test, has a probability of 0.831, which is greater than 0.05, indicating that the model is devoid of autocorrelation, as depicted in Table 1. Overall, the test results show that the model in this study has passed the classical assumption test.

Table 1
Heteroscedasticity and Autocorrelation Test Results

Heteroskedasticity Test: White			
F-statistics	2.025137	Prob. F(9.5)	0.2262
Obs*R-squared	11.77089	Prob. Chi-Square(9)	0.2265
Scaled explained SS	4.509647	Prob. Chi-Square(9)	0.8748
Breusch-Godfrey Serial Correlation LM Test:			
F-statistics	0.113846	Prob. F(2.9)	0.8937
Obs*R-squared	0.370124	Prob. Chi-Square(2)	0.8311

Source: Research Data, Processed Data

Based on the estimation results using the OLS method as shown in Table 2, the equations in this study are as follows:

$$GDP_{MSMEs} = 1200955 + 5.831 TPF + 4.855 \text{ Financing} + 35.532 \text{ Training} + e_i$$

Third-Party Funds (TPF) and credit disbursement have a significant positive influence on MSME development, according to the estimation results, with probabilities of 0.001 and 0.004, respectively, being less than 0.05. Training, on the other hand, has no significant influence, with a probability of 0.346 being greater than 0.05. The TPF coefficient of 5.831 implies that a 1% increase in TPF leads to a 5.831% increase in MSMEs' contribution to GDP, assuming all else remains constant. Furthermore, a 1% increase in financing results in a 4.854% increase in MSMEs' contribution to GDP, and vice versa. Finally, the training coefficient of 35.532 indicates that increased training can increase MSMEs' GDP contribution by 35.53%.

Table 2
Estimation Results of Ordinary Least Square

Variable	Coefficient	Std. Error	t-Statistics	Prob.
C	1200955.	398684.9	3.012292	0.0118
TPF	5.830787	1.378361	4.230232	0.0014
Financing	4.854770	1.380030	3.517872	0.0048
Training	35.53177	36.09398	0.984424	0.3461
R-squared	0.935290	Mean dependent var		2516280.
Adjusted R-squared	0.917642	SD dependent var		2120318.
SE of regression	608491.4	Akaike info criterion		29.69853
Sum squared resid	4.07E+12	Schwarz criterion		29.88735
Likelihood logs	-218.7390	Hannan-Quinn Criter.		29.69652
F-statistics	52.99638	Durbin-Watson stat		2.160659
Prob(F-statistic)	0.00001			

Source: Research Data, Processed Data

Simultaneously, TPF, credit disbursement, and training have a significant influence on MSME development in Indonesia, with a probability of significance of 0.000 and a calculated F-value of 52,996, which is greater than the F-table value of 3,587. Partially, TPF influences MSME GDP, with a calculated T-value of 4.230, which is greater than the T-table value of 2.201. The variable of credit disbursement influences the contribution of MSME GDP with a T value of 3.517 > T table of 2.201. However, training has no significant influence on MSME GDP in Indonesia, with a T-value of 0.984, which is smaller than the T-table value of 2.201. The coefficient of determination (R-squared) of 0.935 indicates that 93.5% of the variation in the studied variables can explain the

variation in MSMEs' contribution to GDP, while 6.5% is explained by other variables that were not examined or are outside the model.

Third-party funds collected by BPRS and credit disbursement have a significant positive influence on the contribution to the development of MSMEs in Indonesia. Third-Party Funds consisting of iB savings with *wadiah* and *mudharabah* contracts as well as iB deposits with *mudharabah* contracts, as well as financing (*mudharabah*, *musyarakah*, *murabahah*, *salam*, *istishna*, *ijarah*, *qardh*, and multi-service agreements) serve to stimulate the productivity of MSMEs in the country. Micro and medium enterprises often face challenges in accessing formal financial institutions, such as commercial banks, due to a lack of sufficient guarantees, hindering the growth and development of businesses for lower-middle-class individuals. These issues are then addressed by developing financial services tailored to the lower-middle-class community (Boukhatem, 2016) so that people can participate in more productive businesses, eventually growing their businesses and increasing their income (Zhuang et al., 2009).

Business entities with restricted access to financing can accumulate funds in BPRS banks through either *Wadiah* or *Mudharabah* contracts, gradually building up their funds until they have enough to start and grow their businesses. This process is known as the Conduit Effect theory, a hypothesis proposed by McKinnon (1973) which asserts that increased financial depth and savings drive investment and stimulate business expansion, particularly within the MSME sector incorporating sharia principles. A significant increase in Third-Party Funds, on the other hand, can help provide financing to individuals who lack the necessary funds to develop their micro-enterprises. In the future, Islamic banking should be proactive in collecting Third-Party Funds (Nuriyah et al., 2018) to allocate more financing for the Micro, Small, and Medium Enterprises (MSME) sector.

BPRS financing has a significant positive influence on the development of MSMEs in Indonesia. Business actors who have deposits in financial institutions but not enough to finance their operations will usually take loans rather than wait until they have enough savings. Increased financing allows business actors to expand their operations, increase productivity, and increase income from businesses owned by MSME actors in particular. Several studies back up the study's findings. In her research, Novita (2018) describes that the financing carried out by BPRS Amanah Ummah has a positive and significant influence on the development of MSME customers. A study conducted by Muner et al. (2017) shows that credit disbursement has a positive influence on the profitability of MSMEs. In addition, (Faisol, 2017), shows that financing has a significant positive influence on MSMEs, financing encourages MSME performance improvement and subsequently on MSME welfare.

In addition to availing the benefits of BPRS as an intermediary institution, the schemes executed by BPRS also align with social objectives such as educational, coaching, or training programs aimed at educating and familiarizing the public with economic concepts and banking financial services, as well as business development strategies. Although in this study the training showed evidence that it had no significant influence, it did not mean that training was unnecessary, but that financial design adjustments and more adaptive training were needed as stated by Roberto and Suwandi (2017), especially

in the era of the COVID-19 pandemic and increasingly massive technological advances in the 4.0 era towards the 5.0 era.

Overall, BPRS as a sharia microfinance institution operating as a bank has performed a commendable role as a microfinance intermediary in raising funds and providing financing to small and medium business owners and the underprivileged. BPRS is an integral component of the sharia financial system, that is indispensable in supporting *kebamsu halaalaat* (fulfillment of essential Halal matters involving human resources, materials, mechanisms, and monetary) and fostering synergies between halal financing and the halal industry in Indonesia, which holds immense potential.

Conclusion

Sharia Rural Banks (BPRS) have a significant role in encouraging the development of the halal industry, especially MSMEs which greatly contribute to Indonesia's Gross Domestic Product (GDP). BPRS financing has a positive and significant influence on the development of MSMEs; the accumulation of capital obtained by MSMEs through BPRS financing can increase MSME products and further encourage the development of MSMEs as a whole. TPF collected by BPRS has a significant positive influence on the development of MSMEs in Indonesia. On the other hand, they have no influence on the development of MSMEs in Indonesia. This implies that the training and coaching provided are still not yielding the best results in terms of encouraging the growth of the halal industry, and that more widespread and adaptive literacy is required to keep up with the development of Indonesian society's socioeconomic order in a rapidly changing environment. Overall, the BPRS encourages MSME financing and increases business capacity (scale-up) so that they can survive and compete with other established businesses. Because macro data on the halal industry in Indonesia is not readily available, future studies may investigate the contribution of the Islamic financial sector to the halal industry in Indonesia.

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