GBMR

Global Business and Management Research: An International Journal
Vol. 17, No. 3 (2025)

Islamic Microfinance as a Catalyst for Halal Industrial Integration: Sustainability and SME Growth Perspectives

Md Mahfujur Rahman*, Mohamad Yazid Isa, Alias Mat Nor,
Islamic Business School,
Universiti Utara Malaysia, Malaysia
Email: dr_mahfuj@yahoo.co.uk; mahfuj@uum.edu.my

Helda Khusun, Imas Arumsari
Faculty of Health Sciences,
Universitas Muhammadiyah Prof Dr Hamka, Indonesia

* *Corresponding Author*

Abstract
Purpose: This review article investigates Shariah-compatible Islamic microfinance as a tool for integrating the halal food system in order to achieve sustainability, ethical business growth, and Maqasid al-Shariah development, and highlights the role of Islamic finance instruments to support the resilience of SMEs and institutional trust.
Design/methodology/approach: This study uses a qualitative literature-based approach. The study employs a narrative synthesis of academic literature, regulatory publications, and country models that use Islamic microfinance, Shariah governance, and halal SME development. This research applies a narrative synthesis methodology without empirical data.
Findings: Islamic microfinance institutions have the ability to fill financing access gaps, enhance Shariah-compliant operations, and support sustainable halal businesses. However, the current context of Islamic finance is limited with fragmentation in regulation, absence of a consistent approach to a national Shariah standard, low levels of financial literacy, and lack of innovative and tailored financing products.
Research limitations/implications: This is a conceptual paper; it is not grounded in empirical findings; therefore, there are no empirical validation. Future studies may adopt expert analysis to validate and refine the proposed integration framework.
Practical implications: The paper suggests possible policy reforms, enhanced Shariah governance features, digital mechanics, and financial mechanisms for halal small businesses. The case examples presented for Malaysia and Indonesia can create broader industry implications.
Originality/value: This paper presents a Maqasid oriented integration model to promote a resilient, inclusive and sustainable halal economy.

Keywords: Islamic microfinance, Shariah governance, Halal industry, SME, Maqasid al-Shariah

Introduction

The halal industry has emerged as a significant contributor to global economic development, driven by increasing consumer awareness, growing Muslim populations, and rising demand for halal-certified products and services. According to the State of the Global Islamic Economy

Report 2023, the global halal economy was valued at USD 2.29 trillion in 2022 and is expected to grow steadily, with food, pharmaceuticals, cosmetics, and logistics forming core sectors (DinarStandard, 2023). This expanding market has created new opportunities for small and medium-sized enterprises (SMEs) seeking to cater to ethical consumer demands aligned with Islamic principles. However, many halal-oriented SMEs face considerable barriers in accessing Shariah-compliant financial services, which limits their ability to grow sustainably within the global halal ecosystem.

Islamic microfinance, grounded in principles of equity, justice, and social welfare, presents a viable solution for addressing the financial needs of halal SMEs. Unlike conventional microfinance, which operates on interest-based lending, Islamic microfinance employs contracts such as murabahah (cost-plus financing), mudarabah (profit-sharing), and qard al-hasan (benevolent loans), all of which align with the prohibition of riba (interest) in Islamic law (Obaidullah & Khan, 2008). This ethical foundation makes Islamic microfinance particularly suitable for supporting the halal industry, which similarly adheres to Shariah-compliant production, processing, and marketing standards.

Despite this natural alignment, the amalgamation of Islamic microfinance and the halal sector is still at an underdeveloped stage. Previous research suggests that many halal-certified entities continue to depend on conventional financial institutions or remain unbanked, as they are unable to access alternative Islamic financial options (Abdullah et al. 2017). This separation might stem from several barriers, such as regulatory interpretations not aligned, not having Shariah Factor/financial products tailored to their needs, the absence of Shariah governance frameworks, and the low level of financial literacy within halal entrepreneurs (Dusuki, 2008).

The issue is exacerbated in developing countries where halal SMEs represent a sizable chunk of the domestic halal value chain but still experience capital constraints, lack of collateral, and ambiguous certification systems. For example, in Malaysia, the government foresees strong Islamic finance and halal industry sector development through several agencies, including the Department of Islamic Development Malaysia and Halal Development Corporation (HDC). However, microfinance institutions and halal regulatory bodies do not communicate (World Bank 2023). We find similar patterns in Indonesia, Bangladesh and certain parts of Africa, where Islamic institutions (IMFIs), exist with no clear affiliation or association with halal certification agencies and their trade associations.

The integration of Shariah microfinance institutions in Malaysia within the halal industry ecosystem is realized through their strategic role in supporting the development of micro, small, and medium-sized halal enterprises (MSMEs). However. a major challenge in developing halal finance is the lack of microfinance entities like in Indonesia’s Baitul Maal wat Tamwil (BMT), though crowdfunding using Islamic instruments (Aderemi & Ishak, 2020; Muflihin & Fatchan, 2025). Moreover, the absence of comprehensive Shariah-compliant financing tools specifically designed for halal SMEs exacerbates the problem. While Islamic banks and microfinance institutions often offer general-purpose products, few of them are customized to address the operational complexities of halal production and trade, such as inventory management, halal assurance systems, or traceability standards.

According to Hakim and Rahim (2024) The effectiveness of Islamic microfinance in addressing poverty is closely linked to the institution's performance, particularly its financial and social efficiencies. Achieving financial sustainability is essential, but it is equally important to ensure that financing reaches borrowers in a way that enhances their income. However, The lack of specialization may limit the effectiveness of Islamic microfinance in supporting the halal sector's unique sustainability goals, which encompass not only economic profitability but also ethical sourcing, environmental protection, and community wellbeing.

Theoretically, the concept of Maqasid al-Shariah (objectives of Islamic law) provides a strong foundation for integrating Islamic microfinance with the halal industry. Maqasid al-Shariah emphasizes the preservation of faith (din), life (nafs), intellect (aql), progeny (nasl), and wealth (mal) (Auda, 2008). Financial systems that support these objectives are expected to produce equal opportunity, social justice and trust in society. When concepts of maqasid are used in the halal industry, they include a framework for ethical business behaviour, consumer protection and community resilience, all core values to the Islamic microfinance vision. Thus, the economics within the halal SME financing domain could be reference points to a wider Islamic economic sustainability if linked to Maqasid principles of Islamic microfinance.

Numerous authors have argued that an increased Shariah compliance of the microfinance field would bolster both the credibility and functionality. According to Suryadi et al. (2025), Shariah governance would involve continuous implication or verification agreed to by stakeholders, thereby reducing reputational risks and enabling the institution to collaborate with similar institutions to expand its outreach. An appropriate Shariah structure would allow microfinanciers to demonstrate their products met legal and spiritual expectations of Muslim consumers, reinforcing their perceived authenticity and inclusiveness of their financial system. This reasoning underpins the need for Islamic microfinance frameworks, that complied with fiqh, to also respond to the structural and operational requirements of the halal industry.

The integration of Islamic microfinance with the halal industry is not merely a financial concern, it is a strategic imperative for achieving inclusive and sustainable growth across Muslim economies. By empowering SMEs with ethical financing tools, it is possible to build stronger halal value chains, enhance consumer trust, and elevate the global competitiveness of halal-certified products. However, this integration requires coordinated efforts from regulators, financial institutions, industry players, and researchers to design, implement, and refine financing models that reflect the shared values and goals of both sectors.

Literature Review

Islamic Microfinance

Islamic microfinance has been examined extensively with regard to poverty alleviation and financial inclusion. It has been associated with Shariah-compliant contracts such as murabahah, mudarabah and qard al-hasan (Obaidullah & Khan, 2008). The studies highlighted the ethical values and empowering communities, positioning Islamic microfinance as an alternative to the conventional systems. Islamic microfinance is often treated as a standalone tool, focusing on outreach to marginalized populations, rather than its potential role in sector-specific implementation such as, for the halal industry. For instance, Mohieldin et al. (2015) investigated the contribution of Islamic finance to financial inclusion in OIC countries but did not consider that IMFIs may provide halal-compliance financing that is necessary for the SMEs with Shariah requirements. Harahap et al. (2023) noted qard al-hasan and risk-sharing mechanisms as potential tools for poverty alleviation. However, their applicability for halal certification, traceability development, and empowering the value chain remained underexplored.

Development and Operational Challenges of Halal SMEs

The academic literature on the halal industry has grown considerably and traditionally is focused on certification, market expansion, and governance. Azam and Abdullah (2021) performed a comparative analysis of halal standards around the world, explaining how the lack of harmonization leads to increased compliance costs and barriers for SMEs to enter international markets. Hayat et al. (2013) similarly explored halal certification through the transaction cost framework, demonstrating the comprehensive procedures that lead to increased operational costs and reduced the growth potential. While these highlight structural barriers experienced by halal SMEs, they fail to discuss how halal SMEs can access financing to maintain compliance standards while expanding operations.

Governance and Regulatory Fragmentation

The issue of governance presents a key dimension binding the financial systems together with the halal industry. Dusuki (2008) investigates the ethical aims of Islamic banking, which includes social welfare and distributing wealth fairly, but he does not relate these aims to the financing situation of halal SMEs. Batubara and Nasution (2023) build on this notion to address regulatory misalignment and regulatory fragmentation between the financial institutions and the halal bodies. They discuss the overlapping mandates of the respective institutions and regulatory silos, which provide inefficiencies and higher costs. While the two studies identify weaknesses in the system, there are not many proposed comprehensive solutions for elements of alignment to coagulate.

Maqasid al-Shariah as an Integrative Framework

Maqasid al-Shariah provides a broad perspective for aligning social and economic systems with ethical principles. Auda (2008) established the foundational dimensions of Maqasid with emphasis on justice, welfare, and equilibrium in development. Muhammad et al. (2025) facilitated understanding of Maqasid in the context of Islamic microfinance, demonstrating how spiritual and ethical objectives may shape financing practices to address long-term sustainability. Although the scholarly potential is substantial, few empirical studies or theoretical explorations have applied the Maqasid thinking to linking Islamic microfinance directly with halal SME development, which can lead to both theoretical and practical benefits. Targeting Maqasid as a conceptual framework of financial vehicles, can develop a collaboration between the ethical financing of halal SMEs with systems of governance.

Research Gap

While Islamic microfinance and halal industry development have gained significant academic attention (Obaidullah & Khan, 2008; Azam & Abdullah, 2021), there has been limited research that examines the financial system in the halal industry while approaching it in a holistic, sustainable way. Studies on Islamic microfinance have mainly focused on its role in poverty alleviation or financial inclusion, while researchers studying the halal industry have related mainly to certification, market building, and value chain domain but with little discussion of appropriate financing mechanisms compliant with Shariah law.

There is a lack of understanding of the functional, policy-based, and sustainability-oriented mechanisms needed to connect Islamic microfinance institutions (IMFIs) with halal enterprises. This gap is especially critical for small and medium-sized enterprises (SMEs), which face fragmented governance, weak cross-sector collaboration, and a shortage of specialized Shariah-compliant financial products tailored to halal business needs (Dusuki, 2008; Abdullah & Oseni, 2017).

There have been relatively few studies that applied the Maqasid al-Shariah perspective to these dilemmas. Questions remain around how ethical and spiritual objectives can guide financial systems and halal industry operations to coordinate an inclusive and sustainable growth (Auda, 2008, Muhammad et al., 2025). The lack of a coherent and holistic perspective highlights a considerable gap in the literature, which this research addresses by proposing a conceptual model for the integration of Islamic microfinance with the halal industry to support the sustainable long-term development of halal SMEs.

Research Objective

To develop a Maqasid al-Shariah–based conceptual framework that integrates Islamic microfinance with the halal industry, addressing structural, governance, and regulatory gaps to promote inclusive finance, ethical entrepreneurship, and the sustainable growth of halal SMEs.

Methodology

Research Approach

This research used a qualitative, literature-based approach to explore the connection between Shariah-compliant Islamic microfinance and the halal industry, with the conceptual framework constructed around the principles of Maqasid al-Shariah. A narrative synthesis method was used to examine, interpret, and synthesize empirical and theoretical literature from academic studies, policy documents, and sustainability reports (Caiado et al., 2018). This methodology was chosen since it allows for the exploration of nuanced and complex ideas and relationships without the primary data collection and constructing a conceptual model.

Literature Search and Analysis

Literature was obtained through comprehensive searches in the Scopus, Web of Science, and Google Scholar databases using search terms such as "Islamic microfinance," "halal small and medium-sized enterprises (SMEs)," "halal industry," and "Maqasid al-Shariah." The review only included studies published in peer-reviewed journals (2006–2025), government and policy reports, and seminal works on Maqasid al-Shariah and Shariah governance (Auda, 2008; Muhammad et al., 2025). The sources were selected based on their contemporary relevance to halal industry development, Islamic finance, challenges to governance, and sustainability. Thus, the review constructed the conceptual Maqasid driven framework with Islamic microfinance for sustainable halal industry.

Practical Context and Research Directions

Contextual reflections drawing on Malaysia and Indonesia were presented to demonstrate the practical relevance. These countries were selected for their developed regulatory organizations, specifically, Jabatan Kemajuan Islam Malaysia (JAKIM) in Malaysia, and, in Indonesia, Badan Penyelenggara Jaminan Produk Halal (BPJPH) and better sustainability of their halal industry. This study does not involve primary empirical data collection but provides a conceptual foundation. To further build this conceptual foundation, future research could incorporate systematic review frameworks, like PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) to improve the transparency and rigor of selecting and synthesizing the literatures. In addition, subsequent empirical studies, such surveys, interviews or case studies, may validate and refine the current framework, and explore how to apply this across different country contexts.

Results and Discussion

Shariah Compliance and Ethical Foundations

This section explores the ethical underpinnings and religious alignment of Islamic microfinance institutions (IMFIs) within the halal enterprise ecosystem. Grounded in the principles of Shariah and Maqasid al-Shariah, IMFIs are designed not merely as financial tools but as transformative agents for socio-economic empowerment. Sharia principles in microfinance institutions (MFI's) can be considered as a choice of solutions to the phenomena of ethics violations in the operation of microfinance institutions to its clients (Arafah & Nugroho, 2016).

Through a manual thematic analysis of the reviewed literature, the four subsections were created. Relevant concepts and reoccurring ideas were identified and coded, and organized into themes that directly referred to the focus areas of the following article: the principles of Maqasid al-Shariah in microfinance; ethical financial instruments and practices; alignment for halal SMEs and faith-based value; and trust and social justice in ethical microfinance. Mainly using Braun and Clarke's (2006) description of a systematic thematic approach as a guide, the organization of themes were carefully derived to reflect the conceptual framework and aims of the article.

Principles of Maqasid al-Shariah in Microfinance

The foundation of Islamic microfinance lies in its strict adherence to Shariah principles, which serve as both ethical and legal guidelines governing financial transactions. At the core of this framework is the concept of Maqasid al-Shariah—objectives of Islamic law—which prioritize the protection of religion (hifz al-din), life (hifz al-nafs), intellect (hifz al-'aql), lineage (hifz al-nasl), and wealth (hifz al-mal). Integrating Maqasid al-Shariah provides an ethical foundation emphasizing collective welfare, making Islamic economic practices beneficial and acceptable to Muslims and non-Muslims (Jubaedah et al., 2025).

These reflected the philosophical backbone of Islamic economic practices, particularly in microfinance services that seek not only financial returns but also social justice and ethical balance. Maqasid-based microfinance systems aim to improve the well-being of individuals and society while remaining in full compliance with Islamic legal principles. This dual pursuit of spiritual and material welfare makes Islamic microfinance uniquely positioned to promote holistic development. It ensures not only the growth of assets but also the dignity, autonomy, and moral accountability of the beneficiaries.

Ethical Financial Instruments and Practices

Islamic microfinance institutions (IMFIs) employ interest-free finance models that keep riba (interest), gharar (excessive uncertainty), and maysir (gambling) out, and replace them with risk-sharing options like Mudarabah and Musharakah. This helps ensure that the way financial operations are executed aligns with ethical considerations and addresses social equity, especially for low-income and marginalized Muslim communities (Obaidullah & Khan, 2008). Mohieldin et al. (2012) indicate that traditional financial systems have not addressed ethical and religious concerns surrounding debt for micro-entrepreneurs, preparing the stage for Shariah-compliant models, which credit on ethical accounting, opening access to financing that's consistent (halal) and sensitive to socio-religious expectations of the borrower. Qard Hasan types of loans (benevolent loan) have found their way into Islamic microfinance as an effective mechanism to empower micro-entrepreneurs, allowing their vulnerability to be respected, rather than exploited. Harahap et al. (2020) point out that the Qard Hasan loan mirrors the spirit of ta'awun (assisting one another), and justice by providing non-interest loans to those in need, ethical financial inclusion and poverty alleviation. The fiduciary structure of Islamic financial contracts is equally interesting as it is available and aligned for one reason: accountability in practice or less exploitation associated with loans. For instance, Murabaha provides full transparency, cost and profit, while diminishing partnership (Musharakah Mutanaqisah) provides pathways to ownership of an asset through the process of buyout.

Faith-Based Alignment for Halal SMEs

Importantly, halal SMEs operate in sectors such as food, pharmaceuticals, fashion, and cosmetics, where it is essential to comply with Islamic law or principles. When microfinance aligns with these enterprises, the funding cannot support haram (prohibited) activities, thereby acting as an upholder of religious compliance where finance contains purpose and is permitted. The maqasid-al-Shariah oriented financial practices also enable financial inclusion for marginalized Muslim populations, especially rural entrepreneurs and women with limited financial access. Islamic microfinance could be a key support for micro-entrepreneurs and low-income households, especially in Indonesia, through financing models compatible with Shariah such as Qard Hasan and Musharakah. These models aim to increase financial inclusion, alleviate poverty, and promote social justice in accordance with the lipasidin al-Maqasid al-Shariah to ensure equity in wealth distribution and risk-sharing (Rahman et al., 2015). Halal SMEs studied with Shariah-compliant financing had potential access to certification, aircraft expansion and new markets. Lastly, legitimizing halal SMEs with Shariah-based financing potentially re-enforces credibility, trust, and compliance of the retro-fitted halal value chain and allows halal SMEs with socially responsible based financing principles.

Trust and Social Justice in Ethical Microfinance

The ethical basis of Islamic finance is vital in creating trust between clients and financial institutions. The trust is established on the transparency and mutual risk-sharing of Shariah contracts. This institutional trust is especially important when halal SMEs need not only capital from Islamic Microfinance Institutions (IMFIs) but guidance to navigate an economy that requires compliance (Laldin & Furqani, 2016). Additionally, IMFIs promote redistributive justice through zakat, waqf and sadaqah, which serve complementary roles alongside for-profit capital-raising. These structural supports build solidarity-based development. Integrating Shariah principles in microfinance could provide a strong ethical foundation for supporting halal SMEs. This integration helps to increase access to finance, enhances trust, and upholds religious values in enterprise development. With the growing halal economy globally, Shariah driven Islamic microfinance could provide a strong tool ensuring growth is ethical, broadly inclusive, and helps achieve spiritual objectives.

Institutional and Regulatory Challenges

This section addresses the institutional and regulatory barriers hindering the seamless integration of Islamic microfinance with halal SMEs. It emphasizes the systemic gaps in policy alignment, sectoral coordination, and Shariah standardization that limit effective implementation of a unified financial support ecosystem for halal enterprises. Table 1 presents a synthesized view of the major institutional and regulatory challenges hindering integration of Islamic microfinance with halal SMEs.

Table 1: Summary of Institutional Challenges and Integration Gaps

Challenge Area	*Description*	*Impact on Halal SMEs*	*Suggested Remedies*	*References*
Institutional Fragmentation	Limited coordination between IMFIs and halal certification bodies	Inconsistent support for halal SME development	Establish inter-agency platforms and collaborative governance	Abdullah & Oseni (2017); Abbas et al. (2014)
Shariah Standard Inconsistencies	Diverging Shariah interpretations across jurisdictions	Confusion in compliance practices for halal SMEs	Standardization via Shariah boards and regional consensus	Aderemi & Ishak (2020)
Product Limitations	Absence of tailored Islamic financial products for halal SMEs	Poor access to financing for certification and growth	Innovation in halal-compliant financial instruments	Dusuki (2008)
Financial Literacy Deficit	Low awareness of IMFIs' services among halal entrepreneurs	Limited usage of Islamic microfinance solutions	Capacity building and rural financial education initiatives	Usman et al. (2016)
Shariah Advisory Capacity Gaps	Lack of Shariah experts with dual-sector knowledge (finance & halal industry)	Weak halal compliance oversight in financial offerings	Training cross-functional Shariah professionals	Abdullah & Oseni (2017)
Technology & Digital Gaps	Lack of digitized Shariah-compliant microfinance platforms	Exclusion of remote halal SMEs from financing access	Investment in Islamic fintech and mobile-based service delivery	Al-Gharawi (2024); Batubara & Nasution, 2023

Fragmented Governance and Institutional Silos

Despite originating from shared principles related to Islam, Islamic finance practitioners and halal industry regulators often operate in isolated silos, which hinders the intersection of financial services with halal certification and operational requirements. Hayat et al. (2013) clearly illustrates the high concentration and lack of consensus in the halal certification market, which raises transaction costs and limits collaboration between financial institutions and halal regulators. Similarly, Ayub and Paldi (2015) argue that the weak linkages between Halal certification frameworks and operational institutions or bodies have further entrenched the split between economic goals and Shariah compliance.

Batubara and Nasution (2023) build on this point by arguing that the Shariah capital market can only be connected functionally to the halal industry through enhanced regulatory coordination and increased participatory investors. Yet, a number of the Islamic Microfinance Institutions (IMFIs) in Islamic finance remain structurally separated from halal certification agencies and industry associations, limiting their ability to provide sufficient services that meet halal based SMEs unique needs. Even in nations such as Malaysia and Indonesia, where halal governance frameworks exist—a disconnect from halal certification framework is evident: Financial institutions tend to be loosely integrated into formal halal governance. Obligations imposed through regulations tend to emphasize compliance monitoring functions rather than leveraging opportunities for ecosystem-wide collaboration, this may lead to inefficiencies and service overlap.

Inconsistent Shariah Standards and Lack of Harmonization

Shariah interpretation and operational standards differ across jurisdictions, leading to inconsistencies in product offerings and trust deficits among halal SMEs. This lack of harmonization affects the scalability and credibility of Islamic microfinance offerings across regions. Diverse halal standards and Shariah interpretations across countries create inconsistencies, impacting SMEs' scalability and trust. This lack of harmonization leads to regulatory uncertainty, affecting access to Islamic microfinance (Azam et al., 2021).). The absence of global or regional Shariah governance frameworks for microfinance contributes to regulatory uncertainty and operational inefficiencies. Even within a single country, variations between banks, cooperatives, and NGOs may cause confusion and deter SME participation

Limited Product Innovation and Financial Literacy

Unique and remarkably diverse halal business models needed different financial arrangements. Nonetheless, a large proportion of IMFIs continue to offer basic contract types, such as Murabaha and Ijarah, and most of these solutions may not help with working capital, traceability, or certification costs for halal SMEs. Additionally Muslim entrepreneurs remain persistently low in financial literacy. Furthermore, many halal SMEs are unaware of Shariah compliant products or misunderstand their terms or benefits. All of this has the potential to suppress demand or deter individuals and businesses from seeking out finance, especially for women-owned or business run by rural groups. Abbas et al. (2014) found that while Islamic microfinance was preferred over conventional microfinance, there was dissatisfaction with Islamic banks' management among the few "respondents" to the surveys. This indicates that limited understanding of a product may present challenges of offering Islamic microfinance to some Indonesian entrepreneurs. Indeed, it may not be practical for any bank or Islamic bank if conceptually, it does not speak to those populations.

Capacity Gaps in Shariah Advisory and Human Capital

A shortage of qualified Shariah advisors familiar with both finance and halal business operations also constrains integration. IMFIs may struggle to vet halal-compliant business plans or provide appropriate guidance to SMEs. Building interdisciplinary expertise is critical to ensure consistent Shariah oversight across financial and industrial domains (Suaidi, 2025). In addition to advisory expertise, human capital limitations in digital finance, SME support services, and halal operations further hamper integrated development. Policymakers must invest in capacity-building programs, including Shariah training, halal technical skills, and financial management education to empower both IMFIs and SMEs (Deti et al., 2024).

Governance and Cross-Sectoral Coordination

This section investigates how regulatory misalignments and fragmented governance affect the integration of Islamic microfinance with halal SMEs. It is organized into four key themes to clarify the challenges and propose actionable insights.

Overlapping Jurisdictions and Fragmented Mandates

The absence of institutional synergy stems from overlapping mandates and unclear division of roles between Islamic finance regulators, halal certification authorities, and SME development agencies. While some countries, such as Malaysia and Indonesia, have taken steps to institutionalize halal governance, coordination with Islamic microfinance remains limited. IMFIs often operate under financial regulators with no mandate to support halal-specific requirements, while halal agencies lack authority over financial policy. Financial regulators typically do not support halal-specific requirements, while halal certification agencies lack the authority to influence financial policy (Hayat et al., 2013). The lack of mandate clarity leads to inefficiencies, duplication of efforts, and inconsistent policies. As a result, halal SMEs face administrative burdens, delayed approvals, and barriers to accessing Shariah-compliant financing tailored to their needs.

Limited Multi-Stakeholder Engagement

Stakeholder involvement in halal microfinance integration is still uneven. Key actors, such as halal entrepreneurs, Islamic scholars, authorities from certification, and financial institutions are frequently excluded from policy dialogue that unites key actors. The result is disconnected strategies with diluted impact across the spectrum of halal microfinance. Further complicating the landscape are the different priorities of ministries of governments (e.g. religious affairs vs finance vs agriculture), which isolate and disempower the voices that may enhance policy dialogue. The development of inclusive policy platforms that represent all stakeholders, and their interests, would open dialogue, build knowledge, and move policy conversations towards collaborations in halal microfinance that creates synergies. Another limitation is the weak involvement of civil society organizations and academic institutions, where there should be opportunities to promote innovative policy and evidence-based policy reform. Having strong governance frameworks for institutions enhances transparency, which is particularly critical is building the level of community trust needed in financial systems, and Islamic finance in particular (Al-Gharawi, 2024).

Toward a Unified Governance Framework

To address these challenges, it will require a dynamic governance model that strives for institutional interoperability that also involves establishing cross-functional halal finance councils, aligning halal certification standards with the design of microfinance products, and accommodating financial access within national halal strategies or plans. The model must be sufficiently fluid to account for jurisdictional differences while fostering a standardization of service delivery. Structural changes must be closely aligned with capacity-building efforts targeted at policymakers, Shariah scholars, and halal SMEs and other stakeholders in the halal economy. As stated by Karim et al. (2024), governance alignment in Islamic finance sectors necessitates policy reform at the top level of authority, then capacity and institution development at the bottom. Case studies from various countries supporting a centralized halal economy blueprint indicate that national vision and interministerial co-ordination are fundamental components of establishing integrated governance in halal economies. Malaysia's initiative to establish a digital economy hub for halal SMEs developed to facilitate international connectivity and enhance the business capabilities of halal SMEs as the hub itself supports halal certification (Sahudin et al., 2023). These frameworks present incredible opportunities for development. However, regulatory drawbacks must be overcome, and effective enforcement of halal standards, especially policy capacity needs to be addressed for ensuring sustainable development of the halal economy.

Thus, governance transformation is essential to ensure that Shariah-compliant finance is not only doctrinally aligned but also functionally embedded within the halal economic ecosystem. Harmonized policy, integrated platforms, and participatory governance are critical enablers of this vision. Table 2. Included the key institutional gaps and strategic solutions for enhancing governance synergy between Islamic microfinance and Halal SMEs.

Table 2: Institutional Synergy and Governance Gaps in Halal-SME Integration

Challenges	***Description***	***Impact on Halal SMEs***	***Proposed Solution***	***References***
Fragmented Governance	Overlapping mandates across halal and finance institutions	Administrative burdens; policy inconsistency	Halal finance councils; inter-agency working groups	Abdullah & Oseni (2017); Abbas et al. (2014)
Stakeholder Exclusion	Limited representation in policymaking	Misaligned programs; lack of trust	Inclusive multi-stakeholder dialogue platforms	Usman et al. (2016)
Siloed Digital Systems	Lack of integrated certification and finance platforms	Duplication of procedures; inefficiencies	Centralized halal SME digital portals	Al-Gharawi (2024)
Sectoral Prioritization Conflicts	Ministries operate with conflicting agendas	Delay in decision-making; policy gaps	Harmonized national halal strategies	Aderemi & Ishak (2020)
Human Capital Gaps	Shortage of cross-trained Shariah and policy professionals	Limited program design and implementation capacity	Capacity-building programs and certification tracks	Laldin & Furqani (2016); Abdullah & Oseni (2017)
Lack of Financial Integration	Disconnection between halal certifiers and IMFIs	Poor access to suitable Islamic financial products	Halal-compliant finance linked to certification schemes	Dusuki (2008)
Inconsistent Regulatory Vision	Absence of unified halal economic development frameworks	Fragmented ecosystem; poor SME engagement	Centralized halal economy blueprints with SME financing	Abbas et al. (2014); Aderemi & Ishak (2020)

Policy and Strategic Interventions

This section builds upon the preceding analyses of ethical foundations, institutional barriers, and governance challenges by proposing strategic reforms and actionable interventions to facilitate the integration of Islamic microfinance with halal SMEs. While this section is informed by global practices, it emphasizes the leading roles of Malaysia and Indonesia, whose frameworks offer exemplary models for other OIC countries seeking to strengthen their halal economy. The discussion is structured into four thematic areas: policy reforms, education and capacity building, real-world country models, and future implementation pathways.

Policy Reforms for Integrated Financial Support

One of the foundational requirements for integrating Islamic microfinance with halal SMEs is the formulation of coherent and inclusive policy frameworks. These should explicitly

incorporate halal sector needs into financial inclusion strategies and SME development plans. Policymakers must prioritize inter-agency policy convergence, ensuring that national economic plans, financial regulations, and halal certification schemes align in objectives and execution.
Examples from Malaysia and Indonesia show the importance of institutionalizing halal finance under national economic blueprints. Malaysia's Halal Industry Master Plan 2030 (HIMP 2030) includes provisions for strengthening SME access to Islamic finance, while Indonesia's Halal Product Assurance Law integrates financing incentives with certification processes (Safar & Ariffin, 2024; Hidayati et al., 2024). These country-specific models illustrate the practical success of integrating policy mandates across sectors to support the halal ecosystem.

Education, Training, and Capacity Building
Capacity development is vital for ensuring that all stakeholders IMFIs, SMEs, policymakers, and certification bodies possess the necessary competencies to engage in an integrated ecosystem. Specialized training in halal enterprise development, Islamic finance contracts, and regulatory compliance should be developed for both practitioners and entrepreneurs.
In Malaysia, institutions such as INCEIF and HDC Academy offer structured certification programs in Islamic finance and halal management. Similarly, in Indonesia, national coordination via Komite Nasional Ekonomi dan Keuangan Syariah (KNEKS) the National Committee for Islamic Economy and Finance, Indonesia and local partnerships help deliver capacity-building programs tailored to regional needs. These models can be replicated or adapted by other countries to create a pool of qualified professionals who understand both finance and halal operations (KNEKS, 2023). Additionally, grassroots financial literacy campaigns targeting women-led and rural halal SMEs can support wider participation and reduce informational barriers (Rahmadi & Rozamuri, 2024).

Country Case Models: Malaysia, Indonesia
Malaysia and Indonesia have both emerged as frontrunners in integrated halal and Islamic finance ecosystems around the world. The Malaysian case focuses on end-to-end halal assurance, which would require financing, certification, trade facilitation, and digitalization to be linked together as part of an ecosystem under one policy. The Department of Islamic Development Malaysia (Jabatan Kemajuan Islam Malaysia – JAKIM) plays a central role in overseeing halal certification and governance, supported by the Halal Integrated Platform (HIP) which is a digital one-stop center that connects SMEs to the certification body, financial institutions, and halal industry registers and databases.

Sulistiawati et al. (2024) identifies Indonesia has a varying approach, through a decentralized notion of halal clusters developed by various actors through the Committee for Sharia Economy and Finance (KNEKS) along with BPJPH and local Islamic banks. This is tied together to form an ecosystem of community-based Islamic microfinance, which the local Baitul Mal wa Tamwil (BMTs), leveraged efforts at the local halal business development. In regards to the halal industry, the approach of integrating local halal industry solutions that service the unique needs of local communities instead of modular solutions at a province-level can be more beneficial in terms of enabling the growth of halal products and services.

Both of these examples present tangible examples for those countries considering building halal economic ecosystems. Policy mimicking, knowledge sharing, and, the ability to strategize formally at the regional level, can develop productive environments for the halal economic ecosystem growing elsewhere.

Maqasid Driven Sustainable Halal Economy

This section synthesizes the key insights from previous analyses to articulate a long-term vision for integrating Islamic microfinance with the halal economy. It reinforces the relevance of ethical financing, institutional synergy, and policy innovation in building a resilient halal SME sector. The principles of Maqasid al-Shariah are to promote justice, welfare, and sustainable development. The goal is not only to ensure financial access but to institutionalize a sustainable development model grounded in Islamic ethics and inclusive economic empowerment. Microfinance institutions (MFIs) extend their services in ways that improve access for the poor, including expanding into rural areas and employing and training local populations regardless of gender (Tunisan, 2015). The implementation of the Millennium Development Goals (MDGs) led to notable progress in addressing critical issues such as poverty and infrastructure in countries like Bangladesh. However, some challenges remain, and these could be mitigated through the outcomes of achieving the Sustainable Development Goals (SDGs).

Figure 1 presents Maqasid-Driven framework for integration from sustainability perspective, outlining five inter-connected strategic levers required to successfully align Islamic microfinance with the halal industry: Maqasid-aligned policy integration, focused access to halal SME financing, risk-sharing instruments (e.g., waqf and micro-takaful), digital innovation for cost-effectiveness, and cross-border alignment of halal and Shariah governance. Collectively, they comprise the foundational pillars to build a resilient, inclusive and sustainable halal economic system based on Maqasid al-Shariah.

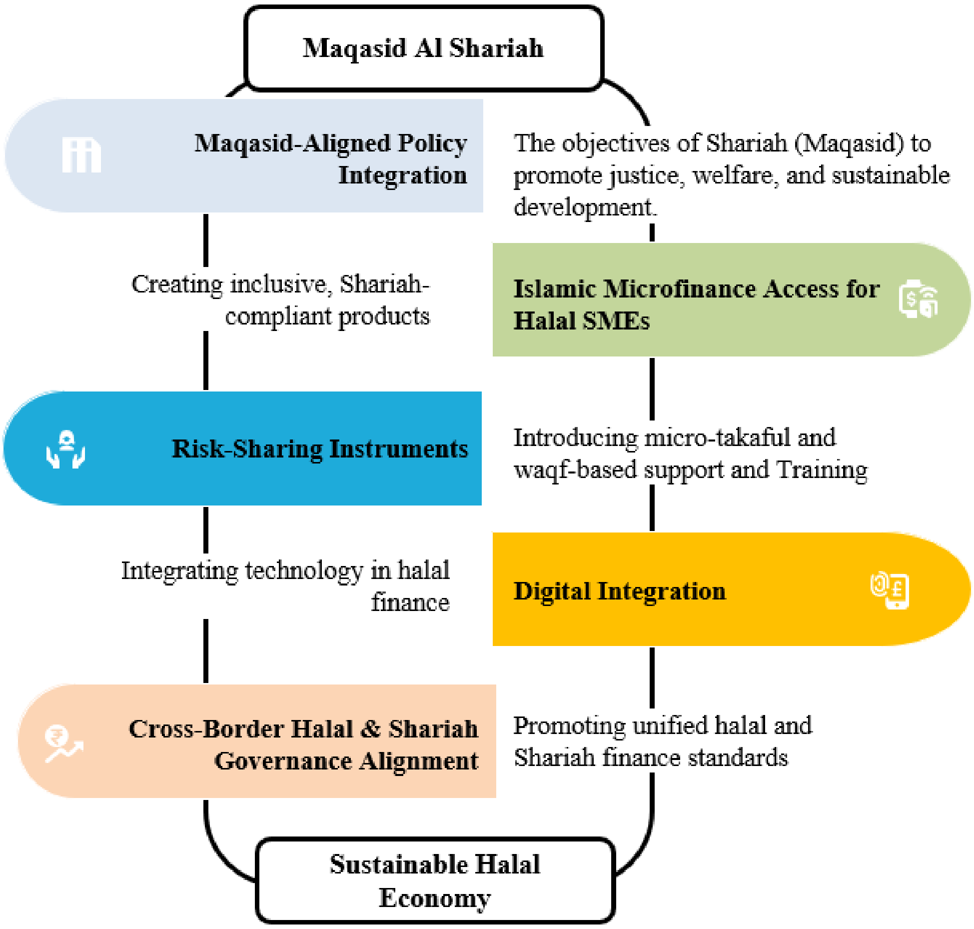

Figure 1: Maqasid-Driven Integration of Islamic Microfinance and the Halal Economy.

Embedding Maqasid al-Shariah in Development Frameworks

The sustainable halal economy must be underpinned by Maqasid al-Shariah as a normative and strategic compass. Protection of religion (hifz al-din), life (hifz al-nafs), intellect (hifz al-'aql), lineage (hifz al-nasl), and wealth (hifz al-mal) should guide all institutional, financial, and operational decisions. In this regard, Islamic microfinance is not simply a tool for financial inclusion—it is a mechanism for social transformation, supporting livelihoods, ethical entrepreneurship, and community resilience.

Integrating Maqasid principles into national halal strategies allows policymakers to prioritize public welfare (maslahah), ethical production, and environmental stewardship. For instance, Malaysia's Halal Industry Master Plan (HIMP) 2030 explicitly aligns halal economic growth with national wellbeing objectives, while Indonesia's halal zones integrate faith-based entrepreneurship with localized development (HDC, 2023; KNEKS, 2023).

Ethical growth and resilient ecosystems for SMEs

Ethical growth is more than compliance. It involves advocating for business solutions that are still fair and transparent and responsible business. Islamic microfinance institutions (IMFIs) must create solutions beyond traditional contracts to assist halal SMEs using value-chain financing, impact-based lending, and waqf-based capital mechanisms (Sulistiawati et al., 2024). These is not only helpful in limiting financial exclusion but develop circular and resilient local economies that assist with spiritual and environmental values. Resilience also relies on risk-mitigation tools such as takaful (Islamic insurance), capacity-building tools, and access to Islamic capital markets. Malaysia and Indonesia have pioneered micro-takaful schemes and sukuk issuance to SMEs and provide an example for others to replicate. As climate-related and geopolitical shocks mount, it is essential to embed resilience into the halal financial ecosystem to facilitate long-term sustainability. Sustainability and achieving the SDGs can further be achieved by using appropriate economic instruments especially through moving from debt-based solutions to equity-based solutions. Highlights by Usman et al, (2016) illustrate how microfinance can promote the poor by enabling them to develop skills and capabilities to become economically self-sufficient. The role MFIs observe in this human capital takes therefore further contributes to the care and well-being of a society.

Regional Collaboration and Global Alignment

Given the transnational nature of halal trade and Islamic finance, regional collaboration is essential. Countries like Malaysia, Indonesia, the UAE, and Turkey can spearhead initiatives to harmonize Shariah standards, create cross-border halal finance corridors, and establish joint training centers. Organizations such as the Islamic Development Bank (IsDB) and IFSB can facilitate this through funding, policy guidance, and technical assistance.

Such regional cooperation supports the achievement of the UN Sustainable Development Goals (SDGs), particularly goals related to decent work, reduced inequality, and responsible consumption. A sustainable halal economy, therefore, positions Islamic values at the heart of the global sustainability agenda where economic success does not come at the expense of ethics, justice, or environment.

Strategic Roadmap for Sustainability

A sustainable halal economy demands more than halal certification or Islamic financial inclusion; it calls for the creation of a values-driven ecosystem where ethics, resilience, and inclusion converge. Malaysia and Indonesia demonstrate the feasibility of this vision through strong institutional commitment, innovative financing models, and public-private coordination. The pathway ahead lies in scaling these efforts through education, fintech innovation, policy convergence, and regional cooperation. If rooted in Maqasid al-Shariah, such a system not only enhances halal integrity but also contributes to the broader global agenda of ethical, inclusive, and sustainable development. Malaysia and Indonesia offer strong policy infrastructures and innovation platforms. However, the next frontier lies in embedding these initiatives into community-level ecosystems and ensuring that even the smallest halal enterprise can thrive within a supportive, ethical, and digitally-enabled economic environment. To operationalize these strategic priorities, the following framework (Figure 2) maps the core pillars of halal-SME integration based on successful experiences from Malaysia and Indonesia.

To operationalize this vision, a strategic roadmap should include:

- **Policy Convergence**: Institutionalize halal microfinance within national halal economy plans.
- **Capacity Building**: Create multidisciplinary training programs integrating halal, finance, and sustainability.
- **Digital Transformation**: Leverage AI, blockchain, and mobile apps for traceability and microfinance inclusion.
- **Impact Monitoring**: Use Maqasid-aligned indicators to measure socio-economic outcomes and ethical performance.

Implementation Pathways and Future Opportunities

In order to have a minimum certainty of longer lasting success, there needs to be a systematic implementation pathway. This pathway should incorporate halal-microfinance integration strategies as formal parts of national development planning, with legislation and budget support. The government could identify ways to utilize public-private collaborations, so that funding can be realized, including technical assistance and digital solutions. Figure 2, outlines key strategic interventions to integrate Islamic microfinance with halal SMEs, focusing on policy reform, digital integration, education and training, SME literacy campaigns, and institutional alignment. It highlights the coordinated roles of stakeholders IMFIs, halal certifiers, and policy agencies and draws on best practices from Malaysia and Indonesia to demonstrate how national strategies can support inclusive and Shariah-compliant economic ecosystems.

Future innovations could entail developing Islamic fintech with halal certification platforms. Adding blockchain-based traceability tools, AI-assisted halal auditing, or even mobile microfinance platforms could simplify compliance procedures and broaden access. Countries already engaging in similar, or developing similar, technology pathways are Malaysia and Indonesia, and current project components can inform future capacity for scale. Finally, the development investment for actors also needs consideration for monitoring and evaluation systems to determine intervention impacts, and make decisions on equity adjustments to intervention pathways.

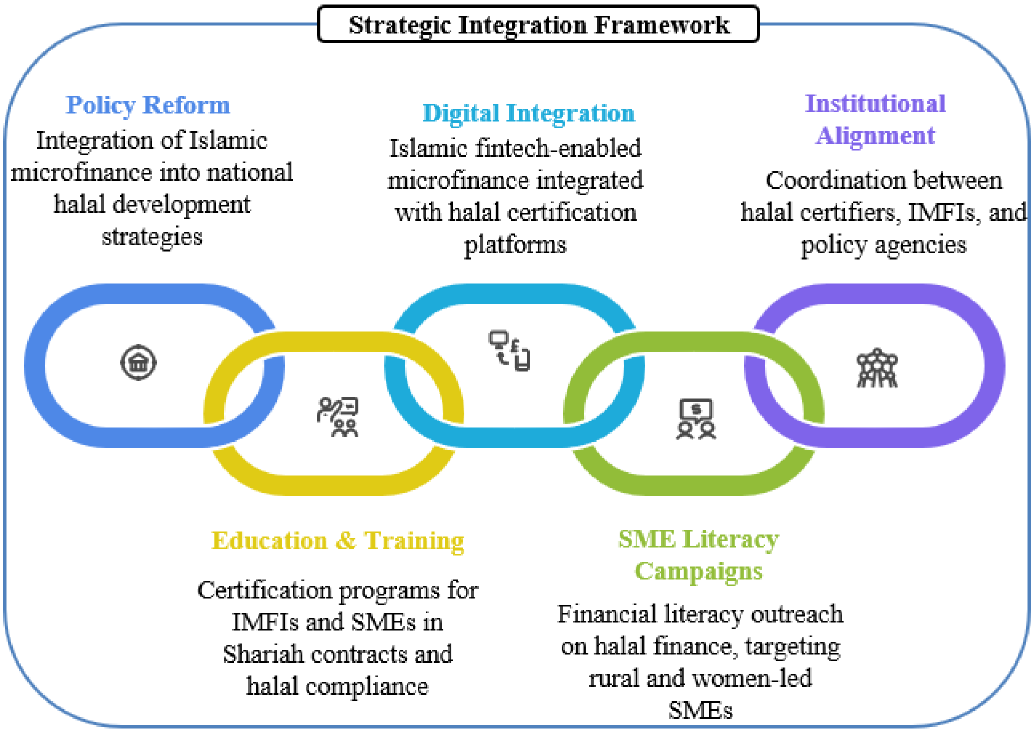

Figure 2: Strategic Interventions for a Sustainable Halal-SME Ecosystem

Conclusion

This study underscores the transformative potential of Islamic microfinance in bridging the financing gap for halal SMEs, particularly when guided by Shariah principles and embedded within a supportive policy ecosystem. Through case analyses of Malaysia and Indonesia, the research highlights how institutional alignment, innovative digital tools, and inclusive capacity-building programs can foster a resilient, ethical, and inclusive halal economy.

A key takeaway is that integration must move beyond regulatory compliance to embody the ethical imperatives of Maqasid al-Shariah justice, public welfare, and economic empowerment. By adopting a strategic roadmap that includes policy convergence, cross-sector collaboration, and fintech innovation, OIC countries can harness the power of Shariah-driven microfinance to support inclusive halal entrepreneurship at scale.

The success of Malaysia and Indonesia provides valuable models for other nations to replicate and adapt, ensuring that even the smallest halal enterprise can thrive within a values-based and digitally-enabled economic system. Ultimately, embedding Islamic ethical finance within the halal industry is not merely an economic necessity, it is a moral imperative for sustainable development.

Acknowledgment
This research was supported by the Islamic Business School, Universiti Utara Malaysia (Research ID: 15012552; SO Code: 21992), in collaboration with Universitas Muhammadiyah Prof. DR. HAMKA (UHAMKA), Indonesia. The authors gratefully acknowledge the institutional support and academic collaboration that made this study possible.

References

Abbas, K., Razak, D. A., & Saad, N. M. (2014). The perception of micro-entrepreneurs and petty traders on conventional and Islamic microfinance: a case study of Pakistan. *Journal of Islamic Finance*, *3*(1), 38–48.

Abdullah, S., & Oseni, U. A. (2017). Towards a shari'ah compliant equity-based crowdfunding for the halal industry in Malaysia. *International journal of business and society*, *18*(S1), 223-240.

Aderemi, A. M. R., & Ishak, M. S. I. (2020). Adopting qard al-Hasan and mudarabah crowdfunding for micro enterprise. *International Journal of Islamic Economics and Finance Research*, *3*(2), 26-38.

Al-Gharawi, R. M. D. (2024). Digital governance and its role in the Islamic economy-Analytical study. *American Journal of Social and Humanitarian Research, 5*(8), 195–206. https://doi.org/10.31150/ajshr.v5i8.2900

Arafah, W., & Nugroho, L. (2016). Ethics commitment in microfinance and shariah microfinance institution. *International Journal of Research in Business Studies and Management*, *3*(3), 7-11. https://www.ijrbsm.ijrsset.org/pdf/v3-i3/2.pdf

Auda, J. (2008). Maqasid al-Shariah: An introductory guide. *Herndon: International Institute of Islamic Thought,* UK

Ayub, M., & Paldi, C. (2015). Dichotomy between sharī ‘ah compliance and the economic goals of Islamic finance institutions. *Journal of Islamic Business and Management* *5*(2), 69–98. https://doi.org/10.12816/0026418

Azam, M. S. E., & Abdullah, M. A. (2021). Halal standards globally: A comparative study of unities and diversities among the most popular halal standards globally. *Halalsphere*, *1*(1), 11-31.

Batubara, M., & Nasution, I. W. (2024). Pasar modal syariah sebagai pilar pendukung pertumbuhan industri halal: sebuah tinjauan komprehensif. *reslaj: Religion Education Social Laa Roiba Journal*, *6*(3), 2170-2179.

Braun, V., & Clarke, V. (2006). Using thematic analysis in psychology. *Qualitative Research in Psychology*, *3*(2), 77–101.

Caiado, R. G. G., Leal Filho, W., Quelhas, O. L. G., de Mattos Nascimento, D. L., & Ávila, L. V. (2018). A literature-based review on potentials and constraints in the implementation of the sustainable development goals. *Journal of cleaner production*, *198*, 1276-1288.

Deti, R., Iskandarsyah, T., Tiffani, I., Anggita, M., Septina, N., Widyartono, A., & Pramudito, F. (2024). Peningkatan Kapasitas dan Kebertahanan untuk para Pelaku Usaha Mikro Kecil dan Menengah pada Kelompok Program Binaan FIFGROUP. *Jurnal Dharma Bhakti Ekuitas*, *9*(1), 68-79.

DinarStandard. (2023). *State of the Global Islamic Economy Report 2023/24*. Salaam Gateway. Retrieved July 30, 2025, from https://salaamgateway.com/specialcoverage/SGIE23

Dusuki, A. W. (2008). Understanding the objectives of Islamic banking: a survey of stakeholders' perspectives. *International Journal of Islamic and Middle Eastern Finance and Management*, *1*(2), 132-148.

KNEKS. (2023). *Annual Report: Shariah Economic Integration Strategies*. Jakarta: Komite Nasional Ekonomi dan Keuangan Syariah.

Hakim, A. R., & Rahim, A. R. (2024). Efficiency and effectiveness of Islamic microfinance toward poverty alleviation in Indonesia: insights from scholars and experts. *International Journal of Academic Reserach in Economics and Management Sciences*, *13*(3), 788-807. https://knowledgewords.com/index.php/ijarems/article/view/1513/1526

Harahap, R. D., Arifin, Z., & Soemitra, A. (2023). Qard al-hasan revitalization as a financing alternative for micro, small, and medium enterprises: An analytic network process approach. *International Journal of Professional Business Review*, *8*(8), e02819. https://doi.org/10.26668/businessreview/2023.v8i8.2819

Hayat, R., Den Butter, F., & Kock, U. (2013). Halal certification for financial products: A transaction cost perspective. *Journal of business ethics*, *117*(3), 601-613.

Hidayati, L., Sucipto, S., Cheumar, M. T., & Juliana, J. (2024). Integrating halal assurance and quality management: A strategic framework for sustainable growth in the food industry. *Industria: Jurnal Teknologi dan Manajemen Agroindustri*, *13*(2), 239-254.

Halal Development Corporation. HDC (2023). *Halal Industry Master Plan 2030 (HIMP 2030)*. https://www.hdcglobal.com/wp-content/uploads/2020/02/Halal-Industri-Master-Plan-2030.pdf.

Jubaedah, D., Solehudin, E., Berizi, A., Mutakin, A., Nurhasana, N., Parhan, P., & Gómez, J. M. N. (2025). Strengthening sharia economics in jayapura's muslim minority communities through fiqh al-aqalliyyat. *Jurnal Ilmiah Al-Syir'ah*, *23*(1), 18-33, 1-24.

Obaidullah, M., & Khan, T. (2008). Islamic microfinance development: Challenges and initiatives. *Islamic Research & Training institute Policy Dialogue Paper*, (2).

World Bank. (2022, October 3). *Islamic finance and the development of Malaysia's halal economy*. Ministry of Finance Malaysia. Retrieved July 30, 2025, from https://www.mof.gov.my/portal/en/news/speech/islamic-finance-and-the-development-of-malaysia-s-halal-economy

Mohieldin, M., Iqbal, Z., Rostom, A., & Fu, X. (2015). The role of Islamic finance in enhancing financial inclusion in Organization of Islamic Cooperation (OIC) countries. Islamic Economic Studies, 20(2), 55-120.

Muflihin, H., & Fatchan, I. N. (2025). Halal value chain model in halal ecosystem of malaysia. *Journal of Distribution Science*, *23*(5), 97-112.

Muhammad, N. M., Kassim, S., Mahadi, N. F. B., & Ali, E. R. A. B. E. (2025). Analysing the significance of maqasid-al-shariah in islamic microfinance: a narrative review. *Journal of Islamic Finance*, *14*(1), 60-72.

Rahmadi, G., & Rozamuri, A. M. (2024). From grassroots to growth: strengthening communities through financial support for SMEs. *Golden Ratio of Community Services and Dedication*, *4*(1), 46-56.

Rahman, R. A., Al Smady, A., & Kazemian, S. (2015). Sustainability of Islamic microfinance institutions through community development. International Business Research, 8(6), 196-207.

Rasyidah, A. N., Azizi, A. Q., & Kholis, N. (2025). Digital ecosystems in supporting global trade of halal products: innovation and challenges. *ADPEBI International Journal of Business and Social Science*, *5*(2), 1-11.

Safar, S. M., & Ariffin, S. K. (2024). Factors influencing export performance amongst halal SMEs in Malaysia. *Global Business and Management Research*, *16*(4s), 435-461.

Sahudin, Z., Razak, M. I. M., Putit, L., & Bakri, M. H. (2023). Overview of halal-integrated platform (HIP) adaption as a halal digital economy hub for small–medium enterprises (SMEs) in Malaysia. In *Digitalization in Halal Management* (pp. 65-72). Singapore: Springer Nature Singapore.

Suaidi, S. (2025). Bridging Institutional and Regulatory Gaps: Enhancing Sharia Compliance in Islamic Financial Institutions in Indonesia. *El-Uqud: Jurnal Kajian Hukum Ekonomi Syariah*, *3*(1), 23-39.

Sulistiawati, N., Said, M., & Aisyah, M. (2023). Halal in the contemporary economic and business ecosystem. *Cakrawala Repositori IMWI*, *6*(6), 2809-2816.

Suryadi, N., Albahi, M., Gisatriadi, N., & Musa, S. (2025). Shariah governance, reputation and customer loyalty at islamic banks. *INVEST: Jurnal Inovasi Bisnis Dan Akuntansi*, *6*(1), 1-11.

Tunisan, M. (2015). Microfinance institutions and rural development. *Journal of Economic Perspectives*, *8*(3), 45–60.

Usman, A., Yusoff, R., & Hussin, F. (2016). Empowerment through Islamic microfinance: The case of some Nigerian women. *International Journal of Economics and Financial Issues*, *6*(3), 1010–1019.