

Sharia green crowdfunding as a sustainable financing solution for halal MSMEs empowerment

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271

Abstract

This research investigates Sharia green crowdfunding as a sustainable mechanism for halal Micro, Small, and Medium Enterprises (MSMEs) in Indonesia. It addresses the gap between environmentally conscious financing and Islamic finance principles, demonstrating how this integration supports the objectives of a green economy. Through a systematic literature review, the study identifies the challenges faced by halal MSMEs. It evaluates the effectiveness of Sharia-compliant financing in improving access to capital. The findings indicate that Sharia-based crowdfunding platforms are crucial for advancing sustainable finance and are aligned with environmental, social, and governance (ESG) principles. The proposed Sharia Green Crowdfunding model provides a new framework for acquiring capital, promoting responsible business practices, and enhancing collaboration between Islamic Financial Institutions and halal MSMEs. Ultimately, this contributes to national economic development. In conclusion, Sharia Green Crowdfunding is vital for Indonesia's ambition to become a global hub for a sustainable Islamic economy.

Public interest statements

This research enhances the discussion on sustainable development while following Islamic financial principles. It can act as a model for other emerging economies aiming to blend religious and environmental factors into their financial systems.

Keywords: *Sharia Green Crowdfunding; Sustainable Financing; Halal MSMEs*

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Abstract

Penelitian ini mengeksplorasi Sharia Green Crowdfunding sebagai mekanisme berkelanjutan untuk Usaha Mikro, Kecil, dan Menengah (UMKM) halal di Indonesia. Penelitian ini membahas kesenjangan antara pembiayaan yang sadar lingkungan dan prinsip-prinsip keuangan Islam, menyoroti bagaimana integrasi ini mendukung tujuan ekonomi hijau. Melalui tinjauan pustaka yang sistematis, penelitian ini mengidentifikasi tantangan yang dihadapi oleh UMKM halal dan menilai efektivitas pembiayaan yang sesuai dengan Syariah dalam meningkatkan aksesibilitas modal. Temuan penelitian menunjukkan bahwa platform crowdfunding berbasis Syariah sangat penting dalam memajukan keuangan berkelanjutan dan selaras dengan prinsip-prinsip lingkungan, sosial, dan tata kelola (ESG). Model Sharia Green Crowdfunding yang diusulkan menawarkan kerangka kerja baru untuk akuisisi modal, mempromosikan praktik bisnis yang bertanggung jawab dan meningkatkan kolaborasi antara Lembaga Keuangan Islam dan UMKM halal, yang pada akhirnya berkontribusi pada pembangunan ekonomi nasional. Sebagai kesimpulan, Sharia Green Crowdfunding sangat penting untuk tujuan Indonesia menjadi pusat global untuk ekonomi Islam yang berkelanjutan.

Pernyataan kepentingan publik

Studi ini berkontribusi pada wacana yang lebih luas tentang pembangunan berkelanjutan dengan tetap berpegang pada prinsip-prinsip keuangan Islam. Studi ini berpotensi menjadi cetak biru bagi negara-negara berkembang lainnya yang ingin mengintegrasikan pertimbangan agama dan lingkungan ke dalam sistem keuangan mereka

Kata kunci: *Sharia green crowdfunding*; pembiayaan berkelanjutan; UMKM Halal

Introduction

Micro, Small, and Medium Enterprises (MSMEs) are a fundamental cornerstone of Indonesia's economic framework, playing a vital role across various sectors. These enterprises are essential stabilizers and catalysts for national economic development and sustainability. According to data from the Ministry of Cooperatives and SMEs of the Republic of Indonesia (2024), MSMEs contributed 61% of the country's Gross Domestic Product (GDP), amounting to IDR 9,580 trillion in 2023. This highlights their significant strength in driving growth and fostering equitable distribution of economic welfare throughout society. MSMEs contribute to economic growth and are the primary employers, absorbing 56% of the total workforce and encompassing over 64 million business units. Furthermore, they are critical in mitigating unemployment and creating sustainable job opportunities, representing 99% of Indonesia's total business establishments (KemenkopUKM, 2024). This considerable presence underscores the integral role of MSMEs in the nation's economic landscape.

Indonesia's Muslim population constitutes 84.35% of the total population (Yashilva, 2024), creating a significant market for halal Micro, Small, and Medium Enterprises (MSMEs). The potential of halal MSMEs and the halal industry in Indonesia is substantial not only domestically but also has considerable exposure to global markets. Strategically situated within the global Sharia market, Indonesia shows excellent promise for developing the Islamic industry. According to the State of Global Islamic Economic Report (2023), Indonesia ranks

third globally in various Islamic economic sectors, including Islamic finance, halal food, modest fashion, and Muslim-friendly tourism. This ranking aligns with the government's strategic initiative to position Indonesia as a leading force in the international halal marketplace (SGIER, 2023). In 2022, halal products contributed 87% to Indonesia's trade balance surplus. The global halal market is valued at over USD 3.2 trillion, with Southeast Asia and the Middle East emerging as key market segments. This presents significant opportunities for Indonesian halal-certified MSMEs to enter international markets.

In response to this potential, the Ministry of Religious Affairs has set a target to certify 10 million Indonesian MSMEs as halal-compliant by October 2024. However, despite their considerable potential to contribute to the economy, halal MSMEs in Indonesia face critical challenges that hinder their optimal development. This study focuses specifically on two key issues: access to capital and economic sustainability, which are fundamental obstacles to the growth of Indonesia's halal MSME sector.

Many micro, small, and medium enterprises (MSMEs) need help getting the funding they need for business growth. A study by Apindo (2023) found that about 61.8% of MSME participants faced issues securing funds to develop their businesses (CNN Indonesia, 2023) – this lack of funding limits their operations and ability to grow and compete. Access to financing is necessary for many MSMEs to improve their production, innovate, or compete in local and global markets. Islamic banking is essential for halal MSMEs and has shown year-on-year asset growth of 11.21%, reaching IDR 892.2 trillion as of December 2023. However, sharia funding for MSMEs needs to be higher and consistent compared to overall bank financing. In June 2024, financial statistics showed that Sharia Commercial Banks (BUS) provided only 5 percent of total bank credit and financing, with BUS financing for MSMEs totaling IDR 76.79 trillion.

Table 1.

Banking Statistics for MSME Financing (in billions of Rupiahs)

Total of MSME Financing	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24
From conventional and Islamic banks	1,449,161	1,456,905	1,468,216	1,461,505	1,468,779	1,471,586
From Islamic Commercial Banks	74,147	74,938	75,700	75,506	75,658	76,793

Source: Processed from OJK

In addition to the financing provided by Islamic banks, there is notable growth in various non-bank financing products that utilize financial technology (fintech), showcasing significant potential in Indonesia. According to the Global Islamic Fintech Report 2022, Indonesia ranks third with a score of 65 in the GIFT Index. The country provides a favorable environment for the development of sharia fintech. Furthermore, as shown in Table 2, the Sharia fintech market in Indonesia is expected to reach a valuation of \$11.264 billion by 2026, demonstrating a compound annual growth rate (CAGR) of 21.60% from 2021 to 2026.

Table 2.
Islamic Fintech Market Size for 10 Countries.

Country	2021 Estimated (\$M)	2026 Projected (\$M)	CAGR (2021-26)
Saudi Arabia	26,027	52,341	15.00%
Iran	19,134	43,967	18.10%
Malaysia	4,811	12,063	20.20%
United Arab Emirates	4,759	10,368	17%
Turkey	4,383	10,434	19%
Indonesian	4,239	11,264	21.60%
Kuwait	3,748	9,521	20.30%
Sudan	2,092	7,657	29.60%
Bangladesh	1,870	4,763	20.60%
Pakistan	1,428	3,239	17.80%

Source: Processed from Global Islamic Fintech Report, 2022

Building a sustainable economy is essential, and having companies that care about social and environmental issues plays a crucial role in this effort. Indonesia aims to reach Net Zero Emissions (NZE) by 2060 as part of its goal for a sustainable economy. Halal micro, small, and medium enterprises (MSMEs) in Indonesia must focus on their environmental impact, especially in reducing carbon emissions and using clean energy. The World Bank (2023) reports that Indonesia contributes about 3.5% to global carbon emissions. Currently, 95.5% of MSMEs in this sector still depend on plastic for their operations, which shows that, despite their potential, halal MSMEs still need to prioritize sustainability.

The Indonesian government has created the Indonesian Sharia Economic Masterplan 2023 in response. This plan encourages cooperation between the halal industry, Islamic banking, and renewable energy. It includes developing Islamic financial tools based on sustainable finance principles. The goal is to help halal MSMEs support national objectives, like turning Indonesia into a global center for the Sharia economy and reaching the designated targets. Islamic finance, especially for investments in the New and Renewable Energy (NRE) sector, has made impressive progress in Indonesia, highlighted by the first issuance of green sukuk in 2019. As of July 2024, the total value of corporate sukuk issuances reached IDR 47.86 trillion, according to OJK data. However, a sustainable funding tool like sukuk needs to be designed for MSMEs.

Majid and Maulana (2023) discuss the potential of green sukuk issuance for micro, small, and medium-sized enterprises (MSMEs) in Indonesia through Security Crowdfunding (SCF). This method capitalizes on the growing interest of environmentally-conscious Muslim investors. A survey by the Ministry of Cooperatives and UNDP reveals that 95% of MSMEs in Indonesia are keen to adopt sustainable practices, underscoring the potential for green sharia crowdfunding finance. However, there is a need for more flexible financing solutions to effectively support MSMEs, with fintech SCF being a promising option.

Adil (2023) suggests that Securities Crowdfunding (SCF) could be a viable alternative for Indonesian MSMEs seeking access to capital. Numerous studies have investigated the implementation of Green Sukuk in the context of Securities Crowdfunding. SCF is a systematic

approach to raising funds through a collaborative venture, where entrepreneurs engage investors for capital contributions, which are reciprocated with services aligned with sharia-compliant agreements. According to Satila Research (2022), sharia-based SCF offers a promising solution for financing MSMEs through loan- and equity-based methods.

This study aims to develop a Sharia-compliant green crowdfunding financing model for halal MSMEs, drawing on existing theories and research related to the potential of Sharia SCF for these businesses. The research supports creating an independent, prosperous, and advanced Indonesia, positioning the country as a leading global center for Islamic economics and finance. Furthermore, the renewable energy sector could act as a catalyst for enhancing halal value chains.

Literature Review

Sharia Crowdfunding

Biancone et al. (2019) asserted that the concept and framework of crowdfunding align completely with Sharia principles, utilizing a participatory approach that is fundamental to Islamic finance. In this model, investors acquire shares in a firm and partake in its gains and losses. Alam et al. (2022) introduced a Sharia crowdfunding system wherein businesses seeking funding must meet standards for halal products and comply with Sharia norms. Additionally, the financing must come from halal sources in terms of the substance and the means by which it is acquired.

The four main entities involved in Sharia community crowdfunding are project applicants (micro, small, and medium-sized enterprises or beneficiaries), fund providers (investors), crowdfunding operators (platform providers), and the Sharia Council, which is responsible for overseeing the crowdfunding process. For a project to adhere to the concept of Sharia crowdfunding, it must be free from maysir (gambling), riba (usury), gharar (uncertainty), and tyranny, ensuring that the Qur'an and Sunnah guide it. Crowdfunding services aligned with Sharia are also governed by a fatwa issued by the Dewan Syariah Nasional Majelis Ulama (DSN-MUI), designated with the number 14O/DSN-MUI/VII/2021. Consequently, it is essential for activities to avoid riba, gharar, may, tables (deception), dharma (harm), haram (forbidden), Jhelum (oppression), and other vices while also not conflicting with Sharia principles. Organizers must be trustworthy and comply with the established legal guidelines governed by Sharia principles. Additionally, while maintainers can impose ujah (service) fees for using the platform, they are required to evaluate issuers' eligibility and either accept or reject all applications for platform use and financing (Dewan Syariah Nasional Majelis Ulama, 2021).

Halal MSMEs

In Indonesia, Government Regulation No. 7 of 2021 categorizes Micro, Small, and Medium Enterprises (MSMEs) based on their business capital as outlined in Article 35, paragraph 2. Micro Enterprises have a maximum business capital of one billion rupiah, excluding land and buildings used for business premises. Small Enterprises have a business capital exceeding one billion rupiah but not exceeding five billion, excluding land and buildings for business premises. Medium Enterprises are characterized by business capital of more than five billion

rupiahs but at most ten billion rupiahs, excluding land and buildings (Pemerintah Indonesia, 2021).

According to Faqih & Umbara (2022), halal MSMEs operate in accordance with Islamic principles and produce halal products. Kristiana et al. (2020) established a framework for conducting business in alignment with Halal principles through Halal Supply Chain Management (SCM). This framework begins with a policy emphasizing senior management's commitment to enforcing halal regulations by standardizing raw ingredients. Also, logistics management requires business units to maintain strong relationships with suppliers to separate halal and non-halal raw materials effectively.

Training on halal standards is vital for supply chain employees to enhance competence and productivity. Implementing Standard Operating Procedures (SOPs) and accurate financial records is essential for effective corporate operations. Establishing a well-structured supply chain network is necessary to ensure efficient collaboration among retailers, distributors, manufacturers, and suppliers, leading to increased customer satisfaction and greater financial returns (Kristiana et al., 2020).

Sustainable Financing

Danso et al. (2019) conducted a study using Environmental Sustainability Orientation (ESO). They argued that Sustainable Finance is a crucial strategy for enhancing a company's financial performance. Cunha et al. (2021) define Sustainable Finance and Investment (SFI) as the management of financial and investment resources to generate positive, measurable, and long-term social and environmental impacts. This concept highlights the significance of social and environmental responsibility in investment decision-making. In Indonesia, the development of Sustainable Finance has been supported through global agreements (OJK, 2016). According to Ari and Koc (2018), Sustainable Financing encompasses a broader concept that addresses the balanced economic, social, and environmental dimensions by integrating them into financial sustainability considerations. This approach emphasizes the use of financing models, such as waqf. Barua and Chiesa (2019) define Sustainable Financing as a practice that connects financial resources with environmental goals, encouraging companies to adopt sustainability practices. Thus, Sustainable Financing represents a financial model that incorporates environmental and social sustainability aspects.

Methods

This study employs a descriptive qualitative method. According to Sugiyono (2010), descriptive qualitative research is a method used to clarify or characterize occurrences in the field. The data collected typically consists of words or images rather than numerical values, emphasizing the process rather than the outcome or product (Sugiyono, 2010). Therefore, this study adopts a literature study approach, utilizing documentation techniques to gather secondary data that includes theories, opinions, and insights derived from books, journals, mass media, and other relevant written materials.

The research was conducted in multiple phases. The initial phase involves defining the issue, where the researcher identifies the challenges faced by halal MSMEs in Indonesia,

particularly concerning capital constraints and business practices that deviate from Indonesia's goal of achieving Net Zero Emissions by 2060. The second phase synthesizes all the gathered information to focus on the central topic. The third phase entails seeking secondary data supporting the research through literature reviews on halal MSMEs, sharia crowdfunding, and sustainable finance. The fourth phase involves selecting appropriate literary references. Finally, the fifth phase includes discussing and designing the Sharia Green Crowdfunding development model, referred to as SG-CF, and examining its implementation.

Results and discussion

Optimizing Sharia Crowdfunding in Sustainable Financing

Susanti et al. (2024) explain that Sharia crowdfunding provides an alternative financing method that adheres to Sharia principles, such as prohibiting usury, speculation, and other haram activities. This financing option primarily targets Micro, Small, and Medium Enterprises (MSMEs), which play a crucial role in the economy of developing countries like Indonesia and significantly impact their environment through their operations. As a result, Sharia crowdfunding represents a significant financial innovation with substantial potential to enhance sustainable finance and promote social and environmental welfare. Research by Global Islamic Fintech (GIFT) in 2022 predicts a significant increase in the volume of Islamic fintech transactions in Indonesia in the coming years. In 2021, the transaction volume reached \$4,239.4 million, projected to grow to \$11,263.6 million by 2026. This represents a compound annual growth rate (CAGR) of 21.6%, considerably higher than the global fintech CAGR of 13.5%. Sharia crowdfunding ranks among the top five subsectors within Sharia fintech (Dinar Standard, 2022), indicating its substantial potential as a viable alternative for sustainable financing.

The rise of Sharia crowdfunding platforms—offering donations, gifts, debt, and equity—introduces a new financing approach that supports entrepreneurial ventures and small businesses in Indonesia. This innovative model addresses the funding gaps and risks traditional financial institutions face when dealing with small enterprises and emerging entrepreneurs. Imelda and Susiang (2024) emphasized the importance of fund efficacy, financial capacity, and organizational-oriented communication in enhancing sharia crowdfunding for sustainable financing. Fund efficacy includes effective management and transparency in fund allocation, boosting investor confidence. Financial capacity encompasses financial literacy and proficiency in money management. At the same time, organizational-oriented communication involves a clear and consistent expression of the company's mission and values (Imelda & Susiang, 2024).

Additionally, Abdullah and Susanto (2019) found that factors such as funding targets, campaign duration, return period, and profit-sharing rates positively influence the success of funding campaigns. However, they noted that a higher minimum investment requirement negatively affects campaign success (Abdullah & Susanto, 2019). Micro, Small, and Medium Enterprises (MSMEs) targeted for sharia crowdfunding often face considerable risks. To enhance sustainable financing, Alhandiansyah et al. (2023) emphasized that Sharia crowdfunding needs a framework that ensures compliance with Sharia principles. This

adherence helps mitigate risks such as defaults and liquidity issues, thereby maintaining investor confidence in Sharia crowdfunding platforms (Alhandiansyah et al., 2023).

The Role of Sustainable Financing in Increasing Halal MSMEs

According to Indonesia.go.id (2023), the number of Indonesian micro, small, and medium enterprises (MSMEs) is projected to reach 66 million in 2023. However, as of February 2024, only 3.8 million of these MSMEs have obtained halal certification, which is significantly below the government's target of 10 million halal-certified MSMEs (Rongiyati, 2024). The main challenges facing MSMEs in Indonesia as they seek halal certification include limited access to financing, inadequate financial literacy, and the costs associated with obtaining certification. As a result, the government has postponed the requirement for halal certification for MSMEs from October 2024 to October 2026. This postponement reflects the government's efforts to increase the number of MSMEs recognized as halal, despite delays in the certification process, to promote sharia economic development.

Due to this industry's significant development potential in both domestic and international markets, sharia-compliant crowdsourcing finance products for micro, small, and medium enterprises (MSMEs) are being increasingly developed. Indonesia has several operational sharia crowdfunding platforms licensed by the OJK, such as Shafiq, Qazwa, and Bizhare. However, there needs to be more Islamic crowdfunding options specifically targeting green fundraising. In contrast, some countries have already established platforms that facilitate green finance for MSMEs. Mahesa et al. (2022) explained that in India, institutions like the Small Industries Development Bank of India (SIDBI) and the National Bank for Agriculture and Rural Development (NABARD) have implemented specialized schemes to assist MSMEs in adopting more sustainable practices. These practices include using renewable energy, improved energy efficiency, and waste management. Sustainable finance provides MSMEs access to capital for green initiatives, such as solar energy projects, electric vehicles (EVs), and other eco-friendly developments (Mahesh et al., 2022).

This approach reduces carbon emissions and creates job opportunities in the green sector, promoting environmental sustainability and economic growth. It is a valuable reference for academics interested in developing a Sharia Green Crowdfunding (SG-CF) financing model in Indonesia. Sustainable financing facilitates the growth of halal micro, small, and medium-sized enterprises (MSMEs) by providing access to funds that adhere to halal standards and sustainability principles. This financing incorporates environmental, social, and governance (ESG) themes to reduce carbon emissions and protect natural resources. It aligns with Islamic values concerning environmental preservation, known as *hifz al-bi'ah*. As a result, sustainable financing enables halal MSMEs to grow while adhering to Sharia principles and supporting environmental sustainability.

The World Bank (2023) has established guidelines for micro, small, and medium enterprises (MSMEs) to secure sustainable financing through several processes. The first step is to invest in the pipeline by developing classifications and procedures within organizations to identify MSME initiatives suitable for green or social finance. The next stage involves verifying the Use of Proceeds (UoP). Fintech companies must ensure that the financed MSMEs adhere to the criteria set by third-party entities for green or social investments. The third phase

evaluates and selects projects to ensure their objectives do not negatively impact environmental, social, and governance (ESG) considerations. The fourth phase is the management of fund revenues, which requires transparency in both the distribution and use of the managed funds. Finally, the last step is impact measurement and reporting. Fintech operators must confirm that the financing distributed aligns with the approved UoP. They should measure the impact using qualitative and quantitative indicators, such as energy savings, reductions in carbon emissions, and job creation (World Bank, 2023).

Construction of the Sharia Green Crowdfunding Model (SG-CF)

Sharia Green Crowdfunding (SG-CF) was established as a collaborative financing model to support halal micro, small, and medium enterprises (MSMEs) focusing on the Green Economy. In 2017, the Indonesian Ministry of Finance developed a framework suitable for financing through green instruments, which include Renewable Energy, Energy Efficiency, Waste Management, Sustainable Agriculture, and Sustainable Transportation (Ministry of Finance Republic of Indonesia, 2017). This framework is the foundation for designing green financing for halal MSMEs that qualify for such financing, as illustrated in Table 3 below.

Table 3.

Green Financing Framework for Halal MSMEs

Green Sector	Description
Renewable Energy	Halal MSMEs engaged in the production or distribution of renewable energy sources such as solar, wind, and biomass are eligible for green finance. This sector prioritizes the reduction of carbon emissions and the adoption of cleaner energy sources.
Sustainable Agriculture	Green funding can assist halal MSMEs in the agriculture sector that adopt sustainable practices, including the utilization of organic fertilizers, efficient water management, and eco-friendly agricultural techniques.
Waste Management and Recycling	Halal MSMEs engaged in waste management and material recycling are eligible for green finance. This encompasses enterprises that convert trash into new products or energy.
Eco-Friendly Transportation	Green financing encompasses halal MSMEs that offer eco-friendly mobility solutions, like electric automobiles and renewable energy-based public transit systems.
Green Buildings	Halal MSMEs in the construction sector that prioritize the development of green buildings or renovations aimed at enhancing energy efficiency and minimizing carbon emissions are eligible for financing.
Use of Eco-Friendly Products	Halal MSMEs utilizing eco-friendly products, such as paper-based packaging in lieu of plastic, are eligible to qualify for financing.

Source: Compiled by authors, 2024

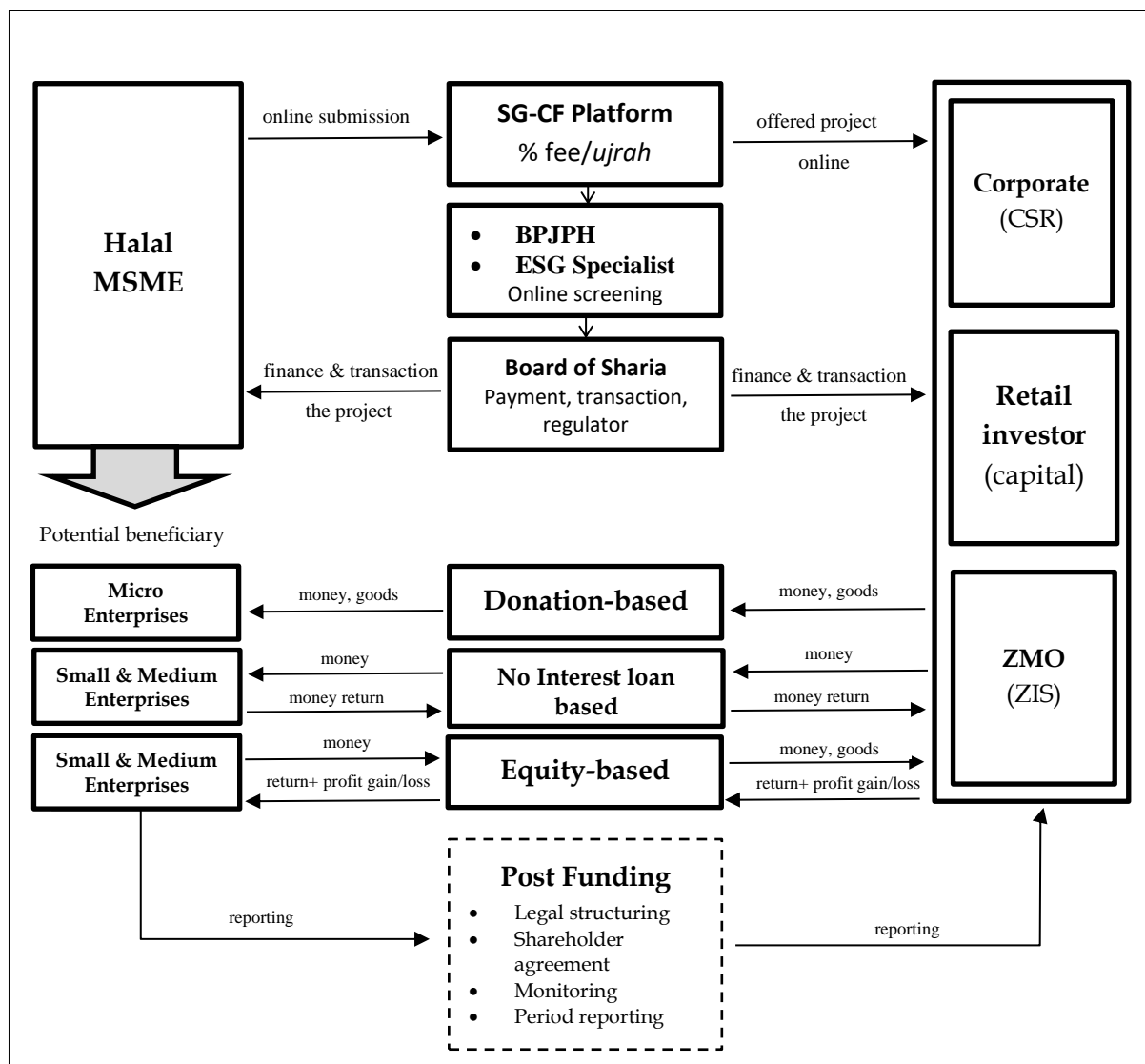
The entities participating in SG-CF resemble the typical Sharia crowdsourcing financing process. Wahjono et al. (2015) identified four primary participants in Sharia

crowdfunding: Project Initiator, Potential Investor, Crowdfunding Operator, and Sharia Council. A project initiator is an individual, organization, or business that commences a crowdfunding initiative. They are tasked with formulating and advocating for ideas or projects to secure funding on crowdfunding platforms, aiming to capture the interest of prospective investors; in this instance, the Project Initiators are halal. MSMEs are individuals or entities seeking to finance a project proposed by the project originator. Potential funders are individuals or entities capable of providing financial support through donations, loans, or equity investments, contingent upon the crowdfunding model employed. Crowdfunding operators are internet platforms or portals that enable the crowdfunding process. They furnish the requisite technical and administrative framework to link project initiators with prospective financiers and guarantee that transactions go efficiently and securely. Sharia Council or Board of Sharia In the realm of sharia crowdfunding, it ensures that the supported projects adhere to sharia norms. They evaluate the project's compliance with halal standards and the legitimacy of the funding source, granting Sharia approval before presenting the business to prospective investors (Wahjono et al., 2015). SG-CF goods emphasize sustainability and are tailored for halal MSMEs, necessitating the involvement of sustainability analysts or ESG (Environmental, Social, Governance) specialists in collaboration with BPJPH (Halal Product Assurance Agency).

Marzban et al. (2014) highlight that several crowdfunding models are available, including donation-based, reward-based, debt-based, and equity-based schemes. These schemes can be tailored to suit various business scales, such as microfinance, small enterprises, and startups. One particular model is Sharia Green Crowdfunding (SG-CF), which employs three contractual frameworks: qardhul hasan, mudharabah muqayyadah, and grants. Under the careful hasan contract, halal micro, small, and medium enterprises (MSMEs) are not required to pay returns or fees to investors, as the funds provided are considered loans. The maharajah muqayyadah framework allows MSMEs to share earnings while adhering to the principle of risk-sharing, where business profits and losses are distributed among investors based on agreements that align with sustainable economic practices. Lastly, the grant contract operates through a donation system, which permits halal MSMEs to receive financial and material support from donors without the obligation to repay the funds, thereby facilitating profit-sharing. Through these three contractual frameworks, SG-CF can evolve into a versatile and diverse financing model that meets the needs of halal MSMEs and their investors or donors.

The Sharia Green Crowdfunding (SG-CF) model is backed by three primary funding sources: the Zakat Management Organization (ZMO), the Company, and retail investors. The ZMO contributes by distributing Zakat, Infaq, and Sadaqa (ZIS) funds to support MSMEs needing financing, particularly those aligned with green economy and sustainability goals under Sharia principles and maqasid al-Sharia. The Company's role involves leveraging its Corporate Social Responsibility (CSR) contributions from entities listed on the Indonesia Sharia Stock Index (ISSI) to channel funds to halal MSMEs. Retail investors with heightened awareness of environmental issues and strong financial literacy are also a key funding source, similar to those investing in green sukuk. Green Sukuk ST-009 attracted 35,397 investors in 2022, indicating a significant market for green-conscious investments. SG-CF can position itself

to appeal to this investor demographic by aligning its products with the vision and objectives of Green Sukuk. The operational mechanism of SG-CF's financing scheme is illustrated in Figure 1.



Source: Authors, 2024

Figure 1.
SG-CF Financing Model

The SG-CF financing plan is segmented into multiple phases. The initial phase involves Submission (funding application) and Screening (selection). Micro, small, and medium firms may apply for financing using the SG-CF platform by submitting essential papers, including the owner's profile and the project proposal for funding. Halal MSMEs will be evaluated based on three specific aspects: Firstly, the halal characteristic of the product. Sharia-compliant funding should be only allocated to MSMEs that operate by Sharia principles and are classified as Halal MSMEs. These MSMEs may operate in any economic sector, including food and beverage, services, and processing. Legitimate transactions aim to trade halal goods and services devoid of haram characteristics while avoiding transactions involving *maysir*, *gharar*,

riba, dharar, dzulm, and vice—secondly, the dimension of green financing. The halal MSME business model must prioritize green financing, ensuring that product materials and business activities align to reduce carbon emissions, such as avoiding plastic use, thereby demonstrating the commitment of MSMEs to environmental protection, including the management of production waste. Third is the aspect of financial stability. A crucial factor in this decision is evaluating MSMEs' skills and capabilities in capital management. This can be evaluated through transaction history in both traditional and digital banking to ascertain credit scoring for SMEs or conduct other analyses, particularly for micro firms. Thus, financial risks can be alleviated. Specifically for the micro company sector, the evaluation team can assess the readiness and inclination of micro-entrepreneurs by providing incremental funds rather than a singular disbursement.

The next stage is the fundraising process. As potential funding sources, SG-CF partners with the Zakat Management Organization (ZMO), corporations, and retail investors. SG-CF works with the Zakat Management Organization, significant enterprises, and individual investors. Through a capital provision contract for micro, small, and medium-sized enterprises (MSMEs), donation-based financing, debt-based financing through a *qardhul hasan* contract (loan-based), and profit-sharing financing through a *mudharabah* contract (equity-based) are the options that donor/investor partners have at their disposal. Donor/investor partners can choose the type of capital financing contract for MSMEs: capital-based financing with a profit-sharing agreement, interest-free loans through *qardhul hasan* contracts, or donation-based financing to potential beneficiaries.

Donation-based (grant) financing aligns with Islamic charitable giving principles, allowing individuals to donate funds to support environmentally friendly projects or initiatives without expecting financial gain. This scheme is more suitable for channeled from Zakat Management Organizations (ZMO) with Zakat, Infaq, and Sadaqah or companies that are listed on the stock exchange and are included in the Sharia stock criteria by utilizing their CSR budget to support donation-based crowdfunding platforms, directing funds to green projects and initiatives that are by sharia. However, specifically for zakat instruments distributed by ZMO, they must adjust the criteria for the distribution of the 8 (eight) asnaf given to *mustahik* (zakat recipients) who are also MSMEs. For example, ZMO can channel zakat funds to micro-entrepreneurs because they fulfill the criteria as *mustahik*. This mechanism is suitable for micro-entrepreneurs, who are often driven by necessity rather than opportunity. These models can give them essential capital to start or sustain their businesses, thereby contributing to their communities' poverty alleviation and economic stability.

No interest loan-based (*qardhul hasan*) financing is offered willingly without expecting a profit share by the maturity agreement. It is a loan scheme based on *qardhul hasan* and offers no interest charges. As a social and charitable endeavor, the primary objective of these loans is to provide assistance to needy individuals. Companies and Zakat Management Organization (ZMO) are examples of the types of parties that have the potential to become creditors. In this arrangement, the loan repayment is carried out by a prearranged agreement based on a deadline or maturity agreed upon by both parties. This loan is an example of the Islamic principle of assisting, which states that the goal of helping others is to do good for

them without the objective of gaining financial advantage. This plan applies to various micro, small, and medium-sized enterprises (MSMEs).

Equity-based (*mudharabah muqayyadah*) crowdfunding provides an investment-centric model, allowing individuals to invest capital in return for an ownership stake in a project or enterprise. Potential investors encompass Zakat Management Organizations, retail investors, and corporations. Micro, Small, and Medium Enterprises This model facilitates direct involvement in the company's financial prosperity while complying with Sharia principles, including the prohibition of interest (*riba*) and mandates for profit-sharing. The capital scheme investors offer in crowdfunding, which includes a profit-sharing percentage, entails a distribution of risk. Investors who execute fund transfers will acquire ownership in the business, receiving returns in the form of dividends. This scheme is more appropriate for implementation in small and medium-scale MSMEs due to their excellent business stability.

The final phase is Post-Funding. Upon approval of financing applications, MSMEs will commence the funding procedure. MSMEs can articulate their financial requirements and justifications for these financial needs. The MSMEs obtain funding under the 3-and system, categorized as micro, small, and medium enterprises, according to the scale of their operations. Disbursement will occur in phases upon collecting money, contingent upon the performance of MSMEs that fulfill the criteria for achieving the SDGs and adhering to halal standards. The requirements of MSMEs are often categorized into two aspects. Initially, capital expenditure serves as the foundational investment for acquiring equipment. Secondly, operational expense refers to the costs associated with business operations. Capital and operational expenditures for MSMEs can be sourced via ZIS (Zakat, Infaq, Sedekah), which the Zakat Management Institution, corporate CSR initiatives, and investments from retail investors allocate.

Multiplier-Effects in Sharia Green Crowdfunding (SG-CF) Implementation

The economic multiplier effect refers to an increase in total economic output that is more significant than the initial investment. Research by Batini et al. (2023) states that every dollar spent on carbon sequestration activities can generate more than a dollar of economic activity, while non-green spending generates less than a dollar. For the category of renewable energy versus fossil fuel energy spending, the multiplier on green spending is about twice as large as non-green spending (Batini et al., 2021). This result means that green spending provides a more significant income effect but requires enormous costs. In the context of economic and environmental sustainability, the implementation of Sharia Green Crowdfunding (SG-CF) has the potential to generate a significant multiplier effect. This is a very promising development. In situations where halal food micro, small, and medium-sized enterprise (MSME) actors do not spend a significant amount of money on their business, it is possible to obtain the cost of renewable energy more efficiently by utilizing Corporate Social Responsibility (CSR) channels and optimizing ZIS. In light of this, not only does this contribute to the transition to clean energy, but it also offers halal Micro, Small, and Medium Enterprises (MSMEs) the opportunity to increase their income over the long term.

The growth of the halal industry, supported by Sustainable Green-Collaborative Financing (SG-CF), facilitates better connections among Islamic financial institutions, including those in the Sharia fintech and Islamic banking sectors, as well as Zakat Management

Organizations (ZMOs) and Islamic entrepreneurs. This collaboration empowers micro, small, and medium enterprises (MSMEs) within the eco-friendly halal industry, with ZMOs serving as agents of wealth redistribution. The synergy created between Sharia-based funding and green investment benefits these businesses—similarly, companies classified as Sharia-compliant can align their corporate social responsibility initiatives with Sharia principles. As a result, halal MSMEs can more easily access capital, promoting business growth and development.

Islamic financial institutions are interconnected, which promotes the growth of halal micro, small, and medium-sized enterprises (MSMEs). With improved access to financing, these MSMEs can enhance their production capacity, foster product innovation, and increase market competitiveness. According to Majid and Maulana (2023), implementing green sukuk through Islamic Securities Crowdfunding can boost investor participation in environmentally friendly projects, further supporting the growth of halal MSMEs.

By utilizing three SG-CF financing schemes, halal MSMEs can transition from micro-scale operations that rely on donation-based financing and interest-free loans to more empowered entities capable of sharing profits with investors through equity-based models. As halal MSMEs expand their capacity and scale, people's incomes rise, positively impacting individual well-being and creating new job opportunities in related industries. The increase in employment supports declining unemployment rates. It enhances purchasing power, ultimately leading to a higher demand for halal products. The overall growth in the halal industry benefits from the economic activity generated within the MSME sector. With the support of SG-CF, the halal industry has the potential for faster and more sustainable development. This aligns with Indonesia's aim to become a global hub for the Sharia economy, contributing to a more inclusive and sustainable national economy.

Furthermore, the Sustainable Green Capital Fund (SG-CF) is essential for promoting sustainable economic growth in line with Indonesia's goal of achieving Net Zero Emissions by 2060. Implementing the SG-CF enables green financing for sectors that support renewable energy and carbon efficiency, which aligns with the government's aim to reduce greenhouse gas emissions. This reduction enhances environmental conditions and stimulates innovation in Sharia-compliant economic sectors, ultimately strengthening Indonesia's competitiveness on a global scale. Batini et al. (2021) explain that, according to Keynesian theory, increased investment in green technology and sustainable infrastructure can lead to higher income and consumption levels among the population. Consequently, the economy can grow faster, become more stable, and achieve long-term sustainability, mainly when supported by sustainable halal products and sharia financing, contributing to Net Zero Emissions. Through the implementation of the SG-CF, Indonesia is progressing towards inclusive economic growth, working to achieve the Sustainable Development Goals and fostering structural transformation in vital economic sectors.'

Conclusion

Sharia Green Crowdfunding (SG-CF) is an innovative solution that addresses capital challenges and enhances the sustainability of halal micro, small, and medium enterprises (MSMEs) in Indonesia. Sharia crowdfunding, which offers alternative financing based on Islamic principles, holds significant potential for implementation in Indonesia, given the country's favorable environment for the growth of Sharia fintech. To effectively promote sustainable financing through sharia crowdfunding, platforms must focus on the effectiveness of funds, financial capabilities, and organizational orientation. Sustainable financing supports the development of halal MSMEs by providing access to funding that aligns with sustainability principles and halal standards. While environment-based crowdfunding has gained popularity, Indonesia currently needs a platform that offers this service. Therefore, author propose Sharia Green Crowdfunding as a joint venture financing model for halal MSMEs with a green economy focus. Implementing Sharia Green Crowdfunding has significant potential to create a multiplier effect in achieving a sustainable economy. It can foster connections between Islamic financial institutions, increase employment opportunities, and lead to job creation, ultimately contributing to sustainable economic growth and the goal of achieving Net Zero Emissions.

Limitations

This paper explores the development model of Sharia Green Crowdfunding (SG-CF) by referencing several previous studies and concepts. The research has several limitations. Firstly, the SG-CF model presented here is still conceptual and has yet to be empirically validated. Secondly, the study does not focus on specific regions or issues related to micro, small, and medium enterprises (MSMEs), which could lead to diverse findings in the model's application and demonstrate the need for implementation in particular areas. The study recommends that future research conduct implementation trials directly with MSMEs in various strategic locations to gather more comprehensive data on the potential and challenges of the SG-CF model.

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