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Is Halal Financing Enough? Digital Ecosystems and MSME Sustainability

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Abstract. This study seeks to explore how halal financing contributes to the sustainability of MSMEs, while also examining the role of the digital ecosystem as a mediating factor in this relationship. A quantitative approach was employed in this study, utilizing primary data gathered from 102 MSME actors in the Bandung area. The analysis was conducted using Partial Least Squares Structural Equation Modeling (PLS-SEM) to evaluate both the direct and indirect relationships among the variables. The results indicate that halal financing exerts a positive and statistically significant influence on MSME sustainability. Furthermore, halal financing is found to significantly enhance the digital ecosystem, which subsequently contributes positively to MSME sustainability. The mediation analysis demonstrates that the digital ecosystem partially mediates the relationship between halal financing and MSME sustainability. This suggests that the effectiveness of financial access is strengthened when it is complemented by digital integration.This study concludes that halal financing alone is not sufficient to ensure MSME sustainability. Instead, its effectiveness depends on the ability of MSMEs to leverage digital ecosystems. Therefore, the integration of Islamic financial services and digital technologies is essential for achieving sustainable MSME development

Keywords: Digital Ecosystem; Halal Financing; Islamic Finance; MSME; Sustainability.

1. INTRODUCTION

In the last 10 years, Islamic finance has become a key tool in fostering inclusive and sustainable economic growth in the Muslim-majority countries. The rapid growth of Indonesian Islamic banking, Shari'ah compliant microfinance and Islamic fintech has resulted in a marked acceleration of halal finance. This development is part of a multi-faceted approach to building the Islamic financial ecosystem and improving Shari'ah compliant financial service provisions to micro, small and medium enterprises (MSMEs). Access to Islamic financial instruments, especially Islamic fintech and peer-to-peer (P2P) lending, has been shown to improve financing and support the MSMEs growth (Alfarizi & Ngatindriatun, 2022; Hartanto et al., 2023; Soemitra & Mahendra, 2022).

Consequently, the Financial Services Authority (OJK) has stated that the consolidation of MSMEs is critical for the stability of the financial system and the continuity of economic growth. MSMEs have the greatest contribution to the workforce and to the national economic output, but the challenge of ensuring their sustainability is a persistent problem. The problem is further compounded by the fact that a majority of MSMEs continue to experience structural problems, such as operational inefficiencies, low productivity, and inadequate market access, notwithstanding the highly available halal financing. Previous research indicates that although Islamic financing fosters financial inclusion, its contribution to MSMEs operationalization and

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sustainability in the long-run is largely absent and the little impact is attributed to structural and capability constraints (Ahyar et al., 2025; Aysan et al., 2016; Iska, 2025; Supriani et al., 2024).

This condition reflects a fundamental paradox: although the number of Islamic financing institutions continues to increase (Figure 1), the sustainability of MSMEs does not necessarily improve in parallel. While halal financing is designed to promote ethical principles, risk-sharing mechanisms, and value-based economic activities, access to financing alone does not automatically ensure its effective utilization. In practice, many MSMEs still face challenges in transforming financial resources into productive and sustainable outcomes, particularly when they lack adequate capabilities (Hassan et al., 2020; Siregar et al., 2025). Therefore, these findings suggest that halal financing, by itself, is not sufficient to drive sustainable business performance.

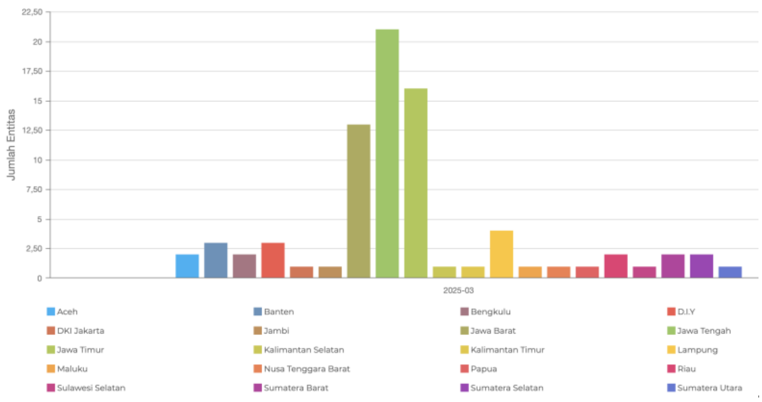

Figure 1. Number of Sharia Financing Entities 2025.

Source: Financial Services Authority (OJK)

Simultaneously, the accelerated growth of digital ecosystems has fundamentally transformed the operational landscape of MSMEs. E-commerce, digital payment systems, and fintech as digital platforms help firms boost efficiency, broaden their market, and improve decision-making. In Islamic finance, digital transformation has also spurred the development of Islamic fintech, which is instrumental in closing the gap between finance and technology. An increasing number of studies demonstrate that digital financial technologies, particularly when incorporated into a more developed digital ecosystem, improve MSME resilience, operational efficiency, and access to finance (Kraus et al., 2020; Okello Candiya Bongomin et al., 2018; Sugiharto et al., 2025).

Integrating the Resource-Based View (RBV) with Dynamic Capabilities Theory, digital ecosystems can be conceptualized as strategic and adaptive capabilities that empower MSMEs to convert financial resources into sustainable results (Eisenhardt & Martin, 2000; Teece, 2016). Halal financing is the restricted supply of financial capital, while digital ecosystems are the means to supply and utilize these ecosystems. From this perspective, MSMEs with halal financing who do not have digital means will underperform, and their long-term viability is questionable. Additionally, the Institutional Theory on MSMEs explains the impact of the regulatory context and the technological ecosystem, especially in Islamic finance, and how these are connected to the MSMEs' actions and outcomes (Dimaggio & Powell, 1983; Scott, 2021).

Even though there is a considerable amount of research on Islamic finance and digital transformation, studies focusing on the interplay between halal financing and digital ecosystems, and their impact on MSME sustainability are scarce. Most of the existing literature analyzes Islamic finance and digitalization in silos and fails to identify the process by which sustainable business outcomes are achieved through enhanced financial accessibility.

This research seeks to explain the absence of sustainable outcomes resulting from halal financing by defining the digital ecosystem as a structurally significant and transformative capability. By moving the discussion from financial access to financial enabling capability, this research dramatically repositions MSME growth in the Islamic digital economy. It is anticipated that the research outcomes will result in certain improvements in the understanding of the phenomenon and, more importantly, be of use to policymakers in MSME support.

2. LITERATURE REVIEW

Halal Financing and MSME Sustainability

Halal financing is financing that abides by Sharia law which bans the charging of interest (riba) and encourages risk-sharing and ethically and morally constructive activities. With regards to MSME financing, halal financing is hoped to improve capital accessibility and foster inclusive and sustainable business growth. Alternative sources of financing MSMEs are also available through Islamic financial institutions, which comprise Islamic banks, microfinance institutions, and Islamic fintech (Ahyar et al., 2025; Aysan et al., 2016; Hassan et al., 2020; Suseno & Bamahriz, 2017).

Halal financing improves the accessibility of financing channels and lessens the financial barriers MSMEs face, and thus, contributes to the growth of MSMEs (Hartanto et al., 2023; Siregar et al., 2025; Sugiharto et al., 2025). Nevertheless, the influence of Islamic financing on long-term sustainability is not clearly understood, as some existing research has shown that, when firms do not possess the skills needed to optimally leverage their financial resources, Islamic financing is not a determinant of improved business outcomes (Ahyar et al., 2025;

Soemitra & Mahendra, 2022). This limitation underscores that access to finance alone is not sufficient to achieve sustainable outcomes. From the perspective of the Resource-Based View (RBV), halal financing can be interpreted as a strategic financial resource. However, financial capital on its own does not ensure a sustained competitive advantage, as it needs to be complemented by other supporting resources. Without such complementary capabilities, MSMEs may struggle to effectively transform financial resources into long-term performance. Based on this argument, the following hypothesis is proposed:

H1: Halal Financing has a positive effect on MSME sustainability

Digital Ecosystems and MSME Sustainability

A digital ecosystem consists of platforms, technologies, and networks that interact and allow businesses to create, deliver and capture value. For MSMEs, digital ecosystems comprise e-commerce platforms, digital payments, fintech, and business networks that support and broaden market access.

The literature emphasizes that digital transformation plays a critical role in enhancing MSME performance, fostering innovation, and strengthening organizational resilience. Firms that adopt digital technologies are more capable of enhancing operational efficiency, accessing wider markets, and responding to dynamic business environments (Kraus et al., 2021; Verhoef et al., 2021). In addition, digital financial technologies have been shown to improve access to capital and reduce transaction costs, particularly in developing economies (Bongomin et al., 2018).

Pioneered by Dynamic Capabilities Theory, digital ecosystems are supportive of adaptive capabilities through which firms Sense, Seize and Transform, enabling them to sustain long-term viability in fast-paced environments, and to proactively develop necessary adaptive capabilities of long-term sustainability. Based on this argument, the following hypothesis is proposed:

H2: Digital ecosystems have a positive effect on MSME sustainability

Halal Financing and Digital Ecosystems

Although halal financing expands opportunities for obtaining financial resources, its usefulness is contingent on the ways in which such resources are employed in business processes. In financial resources' integration in contemporary digital technologies, financing and digital ecosystems appear to be linked.

Studies indicate that the utilization of digital technologies enhances the effectiveness of financial services by enabling better resource allocation, improved financial management, and increased transparency (Alfarizi & Ngatindriatun, 2022; Sugiharto et al., 2025; Supriani et al., 2024). Due to their ability to enhance digital financial literacy and digital capabilities alongside halal financing opportunities, Islamic fintech companies are able to enhance their service offerings in Islamic finance.

Using the Resource-Based View (RBV) and the lens of Dynamic Capabilities, halal financing is an important resource that builds the resource base of MSMEs and allows them to build and use capabilities for sustainable growth. Digital ecosystems, on the other hand, are the MSME capabilities to utilize these resources. Consequently, MSMEs that are more financially accessible to halal financing are predicted to adopt and utilize digital ecosystems more. Based on this argument, the following hypothesis is proposed:

H3: Halal financing has a positive effect on digital ecosystems

The Mediating Role of Digital Ecosystems

While there is no obvious connection between halal financing and the sustainability of MSMEs, the former demonstrates the importance of financial access but does not guarantee positive sustainable outcomes. In this case, halal financing’s effectiveness is contingent upon the MSMEs' ability to harness financial resources through adequate capability.

In this instance, Digital Ecosystems enable MSMEs to utilize their Financial resources optimally. Digital platforms allow firms to boost their productivity and efficiency, improve their decision-making and most importantly, their ability to sustain their Business. This concept correlates with the Dynamic Capability Theory. It states that the performance of any Business unit is determined by its ability to integrate, create and reconfigure its resources. In this case, Digital Ecosystems are the mediating mechanism that connects Financial Accessibility towards the Business unit's sustained performance. Therefore, the following hypothesis is proposed:

H4: Digital ecosystems mediate the relationship between halal financing and MSME sustainability

Research Model

The research model (Figure 2) suggests that halal financing impacts MSME sustainability both directly and through digital ecosystems. Digital ecosystems are conceived as a mediating variable that allows MSMEs to convert financial resources into sustainable outcomes.

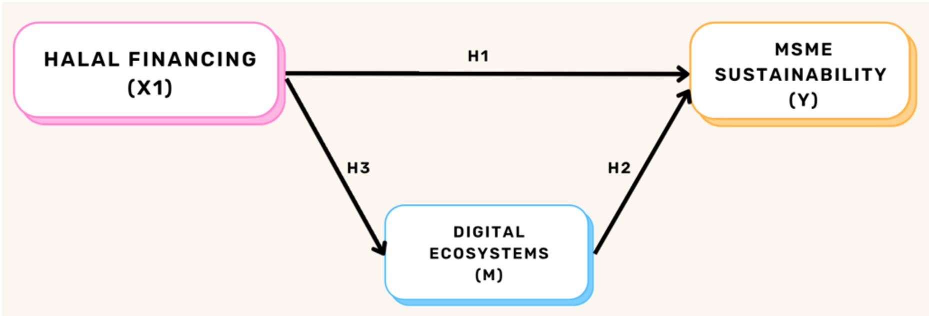

Figure 2. Research Model.

3. METHODOLOGY

This study utilizes quantitative research methods to examine halal financing, digital ecosystems, and the sustainability of MSMEs. A causal research design is employed to examine both direct and indirect relationships between the variables, focusing on the digital ecosystems' mediating role. The quantitative methodology is considered the most suitable for this research because it allows hypotheses to be formulated and enables the relationships among the constructs to be empirically tested (Hair et al., 2019).

Based on the study, the population covered in this research is MSMEs that exist or live in Bandung, including the areas of Bandung City, Bandung Regency, West Bandung and Cimahi. This area is chosen because of its essential contribution to the MSME development and also increasing opportunity for introduction of Islamic financial services and digital platforms. This study uses purposive sampling technique as this is very suitable because of the large subject in population which can confirm that the respondents fulfil the conditions required based on the objectives of this research. The MSMEs selected are those that are already at least 1 year old and have access to financial services, especially Islamic financing and experience in digitalization.

The sample size was determined using a statistical power analysis conducted with G*Power, an approach widely recommended for structural equation modeling, particularly Partial Least Squares Structural Equation Modeling (PLS-SEM)(Faul et al., 2009). Even though the minimum sample size suggested by G*Power is 107, the final sample of 102 respondents is sufficient for PLS-SEM analysis. This can be justified by the 10-times rule, whereby the minimum sample size ought to be at least ten times the highest number of structural paths pointing to any construct in the model (Hair et al., 2019). Given the relatively simple structure of the proposed model, the sample size used in this study is deemed adequate to generate trustworthy and sturdy findings.

Primary data were collected from MSME actors using a structured questionnaire. The measurement items were adapted from well-established studies to ensure adequate content validity and consistency with the underlying theoretical framework. Responses were measured using a five-point Likert scale ranging from strongly disagree to strongly agree, a scale commonly employed in behavioral and business research to capture respondents' perceptions (Sekaran & Bougie, 2016). Before conducting the main survey, a pilot study was undertaken to evaluate the clarity, reliability, and validity of the research instrument.

The study examines three principal constructs: halal financing, digital ecosystems, and MSME sustainability. Halal financing refers to the availability, accessibility, and utilization of Sharia-compliant financial services and financing facilities by MSMEs. The digital ecosystem represents MSMEs' utilization of digital technologies, including e-commerce, digital payment systems, and fintech services, to support their business activities and operations. Meanwhile, MSME sustainability reflects the ability of businesses to maintain their performance and continuity over the long term, encompassing aspects of growth, resilience, and long-term viability (Aysan et al., 2016; Kraus et al., 2021; Siregar et al., 2025).

The data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS software. PLS-SEM was selected because of its suitability for predictive research, its capacity to accommodate complex models involving mediating variables, and its applicability to relatively small sample sizes (Hair et al., 2021). The analysis was conducted in two main stages. First, the measurement model (outer model) was assessed to establish the reliability and validity of the constructs, including indicator reliability, internal consistency reliability, convergent validity, and discriminant validity. Second, the structural model (inner model) was evaluated to examine the proposed hypotheses based on the path coefficients, coefficient of determination (R^2), effect size (f^2), and predictive relevance (Q^2).

Furthermore, the mediating effect of the digital ecosystem was assessed using bootstrapping. A significant indirect effect indicated the presence of mediation, while the type of mediation, whether partial or full, was determined by examining the significance of the direct effect after the mediator was included in the model (Hair et al., 2019). This approach provides deeper insight into the underlying mechanisms linking halal financing to MSME sustainability, which constitutes the core focus of this study.

Figure 3 depicts the conceptual framework of the study, outlining the interrelationships between halal financing, the digital ecosystem, and MSME sustainability. The model is structured to examine both direct and indirect effects, with a specific focus on the mediating function of the digital ecosystem.

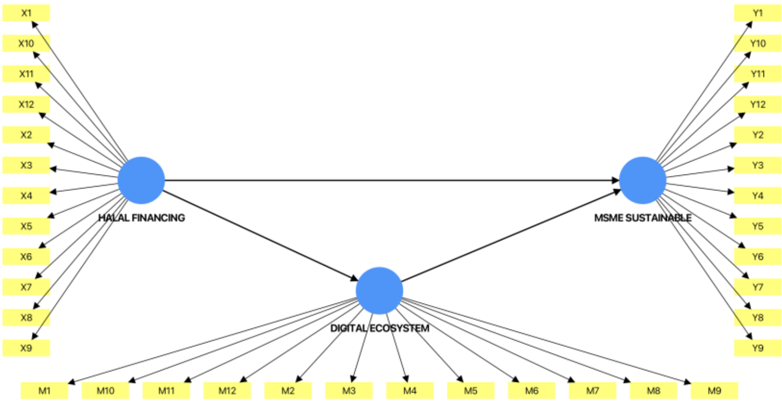

Figure 3. Conceptual Model.

Access to Sharia-compliant financing services is treated as the independent variable in this study, referred to as halal financing for MSMEs. The digital ecosystem is positioned as a mediating variable that facilitates the transformation of financial resources into productive and technology-driven business practices. Meanwhile, MSME sustainability is defined as the dependent variable, representing long-term performance, resilience, and business growth.

According to the proposed model, halal financing exerts both a direct effect on MSME sustainability and an indirect effect through the digital ecosystem. This framework implies that the integration of financial access and digital capabilities can jointly foster a more sustainable business model.

4. RESULT AND DISCUSSION

Results

Respondent Profile

Table 1 showed the profile of respondents This study was conducted on 102 MSME actors located in the area of Bandung. As for gender the majority of respondents are female 76.5% and male respondents made up only 23.5% By business type, most MSMEs are in food (53.9%) as opposed to fashion (26.5%), services (8.8%), and retail (6.9%), while only a low proportion operate in craft and hobby or fisheries sectors respectively (each 2%). This suggests that the sample is skewed towards consumer-related businesses.

Table 1. Profile Respondent.

Characteristic	Category	Frequency	Percentage (%)
Gender	Male	24	23.5
	Female	78	76.5
Type of Business	Culinary	55	53.9
	Retail	7	6.9
	Fashion	27	26.5
	Craft & Hobby	2	2.0

Characteristic	Category	Frequency	Percentage (%)
	Fisheries	2	2.0
	Services	9	8.8
Business Age	< 1 year	2	2.0
	1–3 years	19	18.6
	3–5 years	34	33.3
	> 5 years	47	46.1
Owner Age	< 20 years	1	1.0
	21–30 years	28	27.5
	31–40 years	46	45.1
	> 40 years	27	26.5

In terms of business experience, the largest proportion of MSMEs had been operating for more than five years (46.1%), followed by those with 3–5 years of operation (33.3%). This distribution indicates that the majority of respondents had relatively substantial experience in managing their businesses. Regarding the age of business owners, most respondents were between 31 and 40 years old (45.1%), followed by those aged 21–30 years (27.5%) and those over 40 years (26.5%). These findings suggest that the majority of MSMEs in the sample are managed by business owners within the productive age range. Overall, the respondent characteristics indicate that the sample is sufficiently relevant for examining the role of halal financing and digital ecosystems in supporting MSME sustainability.

Measurement Model Evaluation

The measurement model was assessed to establish the reliability and validity of the constructs through indicator reliability, internal consistency reliability, convergent validity, discriminant validity, and collinearity assessment.

First, indicator reliability was examined by evaluating the outer loadings of each measurement item. As presented in the table below, all indicator loadings exceeded the recommended threshold of 0.70, indicating adequate indicator reliability. Second, internal consistency reliability was assessed using Cronbach's alpha and composite reliability. The results show that all constructs achieved values above the acceptable threshold of 0.70, confirming satisfactory internal consistency. Third, convergent validity was evaluated using the Average Variance Extracted (AVE). All AVE values exceeded the minimum criterion of 0.50, indicating that each construct accounted for more than 50% of the variance in its respective indicators.

Discriminant validity was subsequently assessed using the heterotrait–monotrait ratio (HTMT). The HTMT values for all construct pairs were below the recommended threshold of 0.90, indicating that the constructs were empirically distinct from one another. In addition, collinearity was examined using the Variance Inflation Factor (VIF). The results indicate that none of the VIF values exceeded 5.0, while most were below 3.3, suggesting that multicollinearity did not pose a serious concern in the measurement model. Overall, the findings demonstrate that the measurement model achieved satisfactory levels of reliability and validity and was therefore suitable for subsequent structural model analysis.

Structural Model Evaluation

The structural model was assessed to examine the hypothesized relationships among halal financing, the digital ecosystem, and MSME sustainability. The assessment focused on the path coefficients, their statistical significance, and the explanatory power of the model. The results indicate that all hypothesized relationships are positive and statistically significant. Halal financing has a positive and significant effect on MSME sustainability ($\beta = 0.471$, $t = 4.555$, $p < 0.001$), suggesting that greater access to Sharia-compliant financial services contributes substantially to MSMEs' business performance and long-term viability. Likewise, the digital ecosystem has a positive and significant effect on MSME sustainability ($\beta = 0.477$, $t = 4.530$, $p < 0.001$). This finding indicates that the utilization of digital platforms can enhance operational efficiency, expand market reach, and ultimately support MSME sustainability. Furthermore, halal financing has a strong and significant positive effect on the digital ecosystem ($\beta = 0.717$, $t = 15.246$, $p < 0.001$), indicating that improved access to Islamic financial services may facilitate greater adoption and utilization of digital technologies among MSMEs.

The coefficient of determination (R^2) was used to assess the model fit. The findings indicate that halal financing has an explanation of 54.2% ($R^2 = 0.542$), so it is moderate to high level in terms of the explanatory power. In addition, halal financing and digital ecosystem together explain 78.9% of the variance in MSME sustainability ($R^2 = 0.789$), which is substantial R^2. This means that the model proposed has a great predictive capabilities in accounting for MSME sustainability.

The result confirmed that both halal financing and digital ecosystem have significant contributions to improve MSME sustainability. The relationship between halal financing and digital ecosystem is the most significant hypothesized path, which indicates that financial access can help drive MSMEs to adopt digital transformation. In general, this structure model indicates that halal financing directly influences MSME sustainability and indirectly influences MSME sustainability through digital ecosystem, which meets the proposed research model.

Figure 4 illustrates the final structural model following the assessment of both the measurement and structural models. The results confirm that all constructs satisfy the established reliability and validity criteria, while the structural model demonstrates adequate explanatory power. These findings further suggest that financial inclusion alone may not be sufficient to achieve sustainable MSME outcomes. Rather, its effectiveness is enhanced by MSMEs' ability to utilize digital ecosystems to convert financial resources into sustainable business performance.

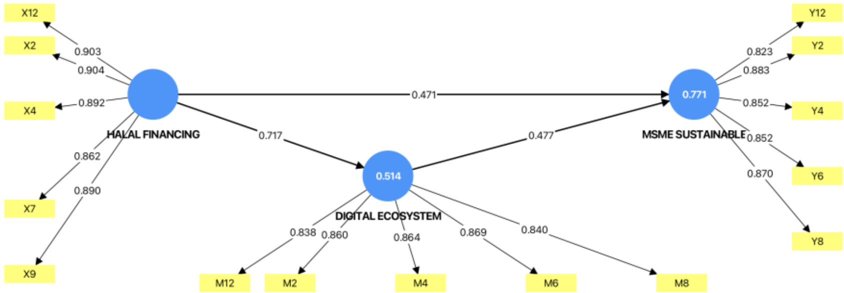

Figure 4. Final Structure Model.

Discussion

This study provides empirical evidence regarding the role of halal financing and digital ecosystems in supporting MSME sustainability. The findings demonstrate that both factors exert positive and significant effects on sustainability, while the digital ecosystem serves as an important mediating mechanism in this relationship.

First, the findings confirm that halal financing has a positive and significant effect on MSME sustainability. This result suggests that access to Sharia-compliant financial services contributes to improved business performance, growth, and long-term viability. From an Islamic finance perspective, halal financing is not merely a source of capital but also incorporates principles of responsible business conduct and risk sharing, which can encourage MSMEs to develop more sustainable business practices. This finding is consistent with previous research indicating that Islamic financing can serve as an important instrument for supporting MSME development and expanding financial inclusion.

Second, the research results indicate that digital ecosystem has a significant impact on MSME sustainability. Stay agile on the value proposition, on whom you want to target and ensure operational excellence such is the proof for digital transformation. Adopting digital platforms such as e-commerce and digital payment systems, MSMEs can be more agile in times of market shift while also ensure the sustainability of their business long-term. This finding validates the growing body of literature emphasizing digitalization as an enabling factor for business resilience and sustainability.

Third, halal financing has a strong and significant effect positive to ecosystem digital. This indicates financial access enabled MSMEs to invest and embrace digital technology. So, halal financing is an enabler of digital transformation. This is especially important, because it demonstrates that financial and digital inclusion are processes that not only go hand-in-hand, but in fact benefit one another.

More importantly, the mediation analysis showed that digital ecosystem partially mediated on relationship between halal financing and MSME sustainability. This explains how financial resources translate into sustainable business results. Halal financing is directly linked to sustainability, but it has a more effective impact when MSMEs take is up digital ecosystems.

This outcome complements prior literature by showing an absence of a positive impact from financing to firm performance, a dominant view thus far. Instead, this research indicates that financing lives up to its potential if properly applied, which has become feasible as a consequence of digitalization. In such a situation, digital ecosystem acts as an enabler for both access to finance and sustenance of business.

On the theoretical ground these findings supported resource-based view(RBV) and dynamic capabilities theory in which these theories claimed that if organization has resources but does not have capability to utilize, it makes no value for the organization. Halal financing can be seen as a strategic resource, while the digital ecosystem is the capability that enables to leverage this resource to provide sustainable benefits for MSMEs.

Overall, the study highlights that MSME sustainability has undergone a transition from merely being access to financial resources, to the ability of integrating digital technologies within business mechanisms. And so, Synergy between halal financing and digital ecosystem cause becomes the driving factor of sustainable MSME development.

5. CONCLUSION AND RECOMMENDATION

Conclusion

The findings provide empirical evidence of significant relationships among halal financing, the digital ecosystem, and MSME sustainability. Halal financing has a positive and statistically significant effect on MSME sustainability, indicating that access to Sharia-compliant financial services plays an important role in supporting business growth and long-term viability.

The results further demonstrate that the digital ecosystem significantly contributes to MSME sustainability, underscoring the importance of digital transformation in enhancing operational efficiency and strengthening market competitiveness. In addition, halal financing has a significant positive effect on the development of the digital ecosystem, suggesting that improved access to Islamic financial services can encourage MSMEs to adopt and utilize digital technologies in their business activities.

Importantly, the findings confirm the mediating role of the digital ecosystem in the relationship between halal financing and MSME sustainability. This result indicates that the benefits of halal financing can be further strengthened when MSMEs are able to integrate digital technologies into their business processes.

Overall, the study demonstrates that achieving MSME sustainability requires more than financial access alone; it also depends on the development and effective utilization of digital capabilities. The integration of halal financing with digital transformation therefore represents an important strategic pathway for fostering sustainable MSME development.

Recommendation

Consequently, These findings provide a basis for developing policy recommendations that promote MSME sustainability by strengthening access to halal financing and fostering the integration of digital ecosystems.

First, regulators and government institutions need to formalize the halal financing system, making it more accessible and inclusive for MSMEs. This could include digitisation of lending processes, outreach leads programmes and customised financial products tailored to MSME requirements. Access to Sharia compliant financing will release capex for MSME on their growth journey.

Second, the government should facilitate the establishment of digital ecosystems by improving digital infrastructure for MSMEs in semi-urban and rural areas. Also, we should turbocharge digital literacy so that MSME actors can effectively engage with digital platforms such as e-commerce, digital payments and online marketing.

Third, Islamic banks and Sharia banking providers need to add digital (or aspirational) offerings in their financing packages. Mobile banking and fintech services are digital financial services that can enhance efficiency and transparency in MSMEs while widening access to finance.

Fourth, in order to create enabling ecosystem stakeholders (government institutions & agencies, FIs, Fintech partners and MSME community) need to work better with each other. Such cooperation can lead to MSME knowledge sharing, technological adoption and innovation.

Prosperity Policies should not just increase financial access but ensure MSMEs can utilize these resources productively through digital integration. And this integrated approach will be critical to maximize the impact of halal financing on sustainable MSME development.

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