

Analysis of halal certification as an instrument for assessing the 5C principles in credit provision for MSME entrepreneurs

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Abstract

Micro, Small, and Medium Enterprises (MSMEs) require capital to develop their businesses. One way to meet this need is by obtaining loans from banks. Banks, in disbursing loans, must adhere to prudential principles, including assessments based on the 5C principles. Halal certification serves as one of the assets owned by MSME entrepreneurs when applying for bank loans. This study aims to determine whether halal certification can be used as collateral for credit and how banks use halal certification as an instrument for credit assessment based on the 5C principles. Before granting loans, banks are obligated to perform a 5C analysis on prospective borrowers, which includes examining character, capacity, capital, collateral, and economic conditions concerning both the borrower's profile and their business profile. This research employs a normative methodology with legislative and conceptual approaches. The findings indicate that, in terms of character, halal certification reflects the honesty of MSME entrepreneurs in maintaining the halal status of their products, thus ensuring consumer safety. Capacity reflects the ability of prospective borrowers or entrepreneurs to manage their businesses effectively. Halal certification also represents capital, or an intangible asset owned by the entrepreneur. Additionally, halal certification serves as an intangible collateral that provides assurance for debt repayment. Entrepreneurs with halal certification are better positioned to compete in both local and global markets. The 5C principles can be utilised by banks as an instrument to assess whether a prospective borrower is eligible for a loan. This study is expected to contribute to bank policies concerning halal certification as collateral and to provide MSME entrepreneurs with alternative access to capital without requiring tangible collateral.

Keywords

Halal certification, 5C principles, Intangible asset

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Introduction

Following the enactment of the Job Creation Law, the regulations on financing and guarantees for MSMEs (Micro, Small, and Medium Enterprises) provide greater certainty for MSME actors. The government is obligated to ensure that MSME financing operates smoothly. These regulations offer significant opportunities for MSME actors to enhance their business competitiveness. Compared to Law No. 20 of 2008, which only stated that the government's obligation to provide financing and guarantees was permissive (*mogen*), meaning it did not explicitly impose a mandatory obligation, the new provisions mark a significant shift [1].

The guarantee of certainty in financing or credit from the government has received positive responses from MSME actors, who are characterised by small working capital and thus require additional funds to develop their businesses. These regulations create opportunities for financial institutions, particularly banks, to extend credit to MSMEs with special policies. Such policies include facilitating MSME actors in accessing capital from banks without requiring tangible collateral, or unsecured loans, where banks can extend loans secured by intangible assets.

A halal certificate is one of the mandatory licences or legalities for halal business products that MSME actors must possess to ensure the safety of products consumed or sold to consumers. A halal certificate is considered one of the assets owned by MSMEs. Before extending credit, banks must carry out a series of assessments on prospective borrowers based on the 5C principles: character, capacity, capital, collateral, and condition of the economy [2].

Research specifically addressing halal certificates as credit collateral is currently unavailable [3], [4], [5]. Existing studies only discuss the impact of halal certificates on MSME businesses and policies related to halal certification for MSMEs [6], [7].

Based on this background, the researcher has chosen the title: "An Analysis of Halal Certification as an Instrument for 5C Principle Assessment in Extending Credit to MSME Actors". From the aforementioned background, the following problems can be identified, can a halal certificate be used as credit collateral dan How can banks use a halal certificate as an instrument for credit assessment based on the 5C principles.

The urgency of this research is aimed at Determining whether a halal certificate can be used as credit collateral and understanding how banks utilise halal certificates as an instrument for credit assessment based on the 5C principles. The benefits of this research are as follows, this research is expected to contribute to bank policies related to the use of halal certificates as collateral and Halal certificates can serve as an alternative for MSME actors to access unsecured capital loans from banks.

Method

This research employs a normative methodology with two approaches: legislative and conceptual. The legislative approach is utilised as a framework to examine the legal construction that underpins and frames the halal certificate as one of the legalities for MSME business products. Meanwhile, the conceptual approach is employed to analyse the halal certificate as an intangible asset that holds value as a form of collateral in credit provision.

Results and Discussion

A halal certificate is a written fatwa issued by the Indonesian Ulema Council (MUI), declaring that a product complies with Islamic sharia law. The halal certificate is a prerequisite for obtaining permission to display a halal label on product packaging, issued by the authorised government agency, the Halal Product Assurance Organising Agency (BPJH). The regulation of halal certification in Law No. 34 of 2014 on Halal Product Assurance [8] in conjunction with Government Regulation No. 39 of 2021 on the Implementation of Halal Product Assurance aims to provide protection and assurance regarding the halal status of products consumed and used by the public [9]. It adheres to principles of protection, justice, legal certainty, accountability and transparency, effectiveness and efficiency, and professionalism.

A halal certificate serves as the legal validation of business products for MSME actors. For MSME actors, a halal certificate adds value to their efforts to produce and market halal products, thereby contributing to business sustainability. Business continuity is vital for MSMEs as a source of livelihood. In addition to being the legal validation for MSME business products, the halal certificate also represents a business asset. Business products are considered capital or assets owned by MSMEs. Business capital serves as an instrument or resource for conducting business activities.

“Guarantee is the bank’s confidence in the debtor’s ability to repay credit as agreed.” (Article 2 paragraph (1) of the Decree of the Board of Directors of Bank Indonesia Number 23/69/KEP/DIR dated 28 February 1991 on Credit Guarantees). “Collateral is an additional guarantee provided by the debtor to the bank as part of the provision of credit facilities or financing based on sharia principles.” (Article 1 point 23 of Law No. 10 of 1998).

The primary function of guarantees is to assure the bank or creditor that the debtor can repay the credit provided in accordance with the agreed credit agreement. The purpose of guarantees is to secure the debtor’s obligations or debts [10].

The concept of collateral classification by nature is divided into general collateral and specific collateral. General collateral applies to all the debtor’s assets, while specific collateral applies to certain assets owned by the debtor. Specific collateral is divided into personal guarantees and property guarantees. Property guarantees are classified into

movable and immovable property. Movable property is further divided into tangible assets and intangible assets [10].

Halal certificates fall under the classification of intangible movable property. Intangible movable property refers to the legal status of business products. Business legality provides a legal basis for ensuring the halal status of products for consumption or use by consumers. As a legal standing, a halal certificate inherently holds economic value. This means that MSME business products with halal certification are marketable, enabling entrepreneurs to generate income or profits from selling their products. One of the principles for property to serve as collateral is its marketability. Therefore, products with halal certification qualify as collateral.

When providing credit, banks are obligated to assess the collateral or guarantee proposed by prospective borrowers.

In the Article 1 point 11 of Law No. 10 of 1998 explain the Credit is the provision of money or equivalent claims based on an agreement or loan arrangement between a bank and another party, obligating the borrower to repay the debt within a specified period, along with interest [11]. Before granting credit, banks must analyse and assess prospective borrowers. One of the key principles in credit assessment is the 5C principle: character, capacity, capital, collateral, and condition of the economy.

The 5C principle is applied as an assessment instrument for halal certificates, as follows:

1. Character: The assessment of the prospective borrower's character aims to ascertain their honesty and good intentions. The connection of honesty and good intentions with the halal certificate indicates that the borrower is trustworthy and committed to ensuring the halal status of their products, thereby ensuring consumer safety. Furthermore, owning a halal certificate reflects the borrower's compliance with regulatory requirements, demonstrating good intentions.
2. Capacity: This involves evaluating the prospective borrower's ability to manage their business effectively, both in terms of management and technical aspects. Possessing a halal certificate signifies adherence to good corporate governance principles, including transparency regarding the halal status of products consumed or used by consumers. Compliance with regulations represents the responsibility of MSME actors to ensure product safety for consumers, thereby maintaining business continuity and earning consumer trust.
3. Capital: Capital assessment evaluates the financial resources of the borrower. A halal certificate, as a form of capital, represents the costs, time, and effort invested by the borrower to obtain it. These expenses can be recorded in financial statements as investment costs.
4. Collateral: This involves evaluating the borrower's assets or wealth. Assets may include tangible assets, such as movable and immovable property, as well as intangible assets, such as rights. A halal certificate can be categorised as an intangible

asset, representing a personal guarantee from the entrepreneur regarding the safety of their business products for consumers. This assurance of product safety contributes to business continuity for MSME actors.

5. Condition of the Economy: This assesses the market conditions domestically and internationally to evaluate the marketing prospects of the borrower's products. Law No. 34 of 2014 on Halal Product Assurance and Government Regulation No. 39 of 2021 on the Implementation of Halal Product Assurance require business actors to obtain halal certification for products sold to consumers.

Based on the 5C principle assessment, banks can provide credit with the consideration that halal certificates qualify as credit collateral. Halal certificates hold economic value, as they enhance the marketability of products by ensuring consumer safety, thereby increasing competitiveness. This consumer trust serves as capital for MSME business continuity, which, in turn, guarantees the repayment of credit provided by banks. The primary function of collateral is for banks to extend loans based on confidence in the debtor's ability to repay the credit. The primary source of repayment is the debtor's or MSME actor's business operations.

Conclusion

A halal certificate can be used as credit collateral. It serves as one of the legal validations for halal products owned by MSME entrepreneurs. Product legality ensures the guarantee provided by entrepreneurs to consumers regarding the safety of their products. This guarantee, offered by entrepreneurs to consumers, can be categorised as an intangible movable asset with economic value, signifying that the products are marketable and tradeable. Banks apply the 5C principle in assessing halal certificates. A halal certificate meets the elements of the 5C principle, enabling banks to extend credit to MSME entrepreneurs who hold halal certification for their products. Based on the 5C principle, a halal certificate can be classified as collateral for business continuity, which serves as the primary source for the repayment of the debtor's credit or loan.

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