

## **Green Finance Based Access to Financing in Islamic Microfinance: A Case Study of the UMi AMBO Program in Padang**

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### **Abstract**

This study aims to analyze access to financing based on green finance, using a case study of the UMi AMBO program. The research employs a qualitative approach, collecting data through interviews, observations, and documentation. The implementation of green finance program in Padang not only enhances access to financing for micro enterprises but also encourages environmentally friendly business practices. This requires simplification of procedures, improvement in banking service quality, and strengthening of the capacity of micro, small, and medium enterprises. The UMi AMBO financing program has proven effective in supporting microenterprise development and promoting financial inclusion for small business actors. Innovations in the application of green finance-based financing and enhancement of mentoring programs for beneficiaries are necessary. If managed properly, the ultra micro financing can serve as a model for other financial institutions to implement green finance, eliminate predatory lending practices, and empower MSMEs to grow sustainably. It can be concluded that the program is also based on the principles of Islamic economics, such as 'adl), balance (tawazun), prohibition of usury (riba), social responsibility (maslahah), and profit-and-loss sharing mechanisms. These principles ensure that financing is conducted ethically and sustainably, in alignment with Islamic values and the goals of sustainable economic development.

**Keywords:** Access to Financing ; Green Finance; Umi Ambo

### **1. INTRODUCTION**

UMi AMBO is a Sharia-based ultra-micro financing initiative implemented by the West Sumatra Provincial Government in collaboration with the Government Investment Center (PIP) under the Ministry of Finance. The main goal of this program is to provide access to finance for ultra-micro business actors who are unserved by formal financial institutions (unbankable), through a Sharia-compliant financing scheme that is fair, interest-free, and promotes equitable distribution. UMi AMBO not only promotes Islamic financial inclusion



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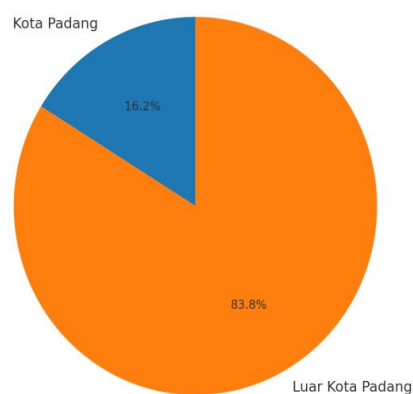
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but also offers an alternative to predatory lending practices that harm vulnerable communities. Use an academic language style that is easy for readers to understand Many micro, small and medium enterprises (MSMEs) in Padang, West Sumatra Province, who should benefit from AMBO's Ultra Micro (UMi) literacy program are facing the harsh reality of accessing green finance. The program, which was initiated to empower Islamic MSMEs and eradicate loan sharks, in its realization, shows a striking gap between expectations and reality. During the 2017-2024 period, the program distributed IDR207.4 billion to 43,262 recipients in Padang City. However, the average recipient only received IDR 4.5 million, far below the maximum ceiling of IDR 20 million promised. On the other hand, Padang City only absorbed 16.17% of recipients and 16.12% of funds, while 83.83% of recipients and 83.88% of funds were channeled outside Padang City(Data.umi.id). This fact shows the imbalance in the distribution of financing in an area that should be the center of the economy and a pilot for Islamic finance. Ironically, the program that aims to accelerate UMi AMBO's Islamic financial inclusion has not fully adopted the principles of green finance based on sustainability. In fact, the integration of Islamic finance with the concept of green finance can encourage financing that is not only fair, but also environmentally friendly. For example, financing based on renewable energy or environmentally friendly micro businesses can be prioritized. Unfortunately, the difficulty of accessing this financing has led small businesses to seek instant solutions through loan sharks, contrary to the spirit of sustainability.

**Chart Microfinance Program Survey 2017-2024**

Distribusi Penerima Pembiayaan (2017-2024)



Distribusi Dana Penyalur (2017-2024)



(Data Source: One Data PIP, 2024)

The figure above shows two graphs that illustrate the inequality in the distribution of recipients and distribution of UMi AMBO literacy program

financing in Padang during the 2017-2024 period. In the first graph, which shows the distribution of financing recipients, it can be seen that only 16.17% of the total recipients are in Padang City, while the remaining 83.83% are outside Padang City. This reflects the stark disparity between West Sumatra's economic center and the rest of the region in terms of access to financing. In the second graph, which illustrates the distribution of disbursed funds, Padang city only received 16.12% of the total disbursed funds, while 83.88% of the funds were allocated to areas outside Padang city. Although Padang City is the main economic center, most of the funds are not disbursed proportionally to Padang City. These two graphs illustrate the unevenness of access to financing, indicating an imbalance in the distribution of funds and recipients of financing.

However, although MSMEs have become the backbone of the Indonesian economy, around 70% of them still experience difficulties in gaining access to financing from formal financial institutions (Bank Indonesia, 2020). This indicates a gap that needs to be addressed through government programs such as Ultra Microfinance (UMi). With a maximum ceiling of IDR 20 million per person (Ministry of Finance), the UMi program has succeeded in expanding access to financing, including in the West Sumatra region, which has great potential in the development of locally-based and sustainable MSMEs (Kemenkeu 2024).

Existing research has explored various aspects of access to finance, green finance, and micro, small, and medium enterprises (MSMEs). However, a crucial gap remains in understanding access to financing specifically based on green finance studies through the UMi AMBO program in Padang, West Sumatra. This review synthesizes existing research into three key thematic areas: financial literacy and financing behavior, green finance and policy, and microfinance and MSMEs.

### 1. Financial Literacy and Financing Behavior

Research consistently highlights the significant influence of financial literacy and demographic factors on financing decisions, particularly within the informal sector. Darmawan and Fatiharani (2019) demonstrated that an individual's financial literacy, demographic characteristics, and the availability of financing profoundly impact their decision to take informal sector business credit. Their findings suggest that higher financial literacy leads to more informed credit management decisions.

Furthermore, demographic factors like age and education level play a crucial role, with younger and more educated individuals showing a greater

propensity for risk-taking in business credit applications. The study also underscored the importance of access to finance, indicating that easier access encourages its utilization for business growth. These insights highlight the need for enhancing financial literacy, supporting vulnerable populations, and broadening access to finance for informal business owners to foster grassroots economic development.

## 2. Green Finance and Policy

The role of green finance policies in promoting sustainable economic development and corporate environmental responsibility is gaining increasing attention. Yuan, Shang, and Xu (2024) investigated the impact of government-led green financing policies on corporate environmental responsibility. Their findings indicate that formal government-led green financing policies can positively influence corporate environmental responsibility. The effectiveness of these policies is further enhanced by regional green development factors and robust law enforcement.

Moreover, the study found that local pollution levels amplify firms' sensitivity to these policy effects. This research provides valuable insights into the pivotal role of green finance policies in advancing a sustainable economy and helps to clarify the varied evidence regarding the financial functions of green finance policies at the firm level. Community-oriented green finance, as articulated by Yuliawati et al. (2022), emphasizes the application of environmentally friendly financial principles and prioritizes social justice, especially in natural resource management and sustainable economic development, aligning with the principle of sustainability in all business activities.

## 3. Microfinance and MSMEs

Microfinance institutions play a vital role in addressing the financing needs of MSMEs. Rudiyanto (2022) examined the access of micro, small, and medium enterprises to banks for financing. While acknowledging the significant role banks play in addressing MSMEs' financing challenges, the study revealed that only 40% of MSMEs opt for banks as a potential source for development. MSME actors often express a desire for both financial assistance and technical training from banks to support their business growth. The development model of microfinance institutions based on green finance, a focus of the current research, emphasizes the principle of sustainability in every business activity carried out.

Despite existing research on financial literacy, green finance policies, and MSME access to finance, there is a significant gap in the literature regarding the crucial aspects of access to financing specifically based on *green finance studies through the UMi AMBO program in Padang, West Sumatra Province*. Previous studies have not adequately explored how the principles of green finance are integrated and accessed within a specific microfinance program like UMi AMBO. While the importance of financial literacy, demographic factors, and general access to finance for informal businesses is established (Darmawan and Fatiharani 2019), and the broader impact of green finance policies on corporate responsibility is understood (Yuan, Shang, and Xu 2024), the application and accessibility of green finance principles at the grassroots level through specific microfinance initiatives remain largely unexplored. Furthermore, while MSME access to traditional banking finance has been mapped (Rudiyanto 2022), the unique challenges and opportunities for MSMEs seeking *green finance* within a community-oriented program like UMi AMBO in the context of Padang, West Sumatra, have not been adequately addressed. This research aims to fill this critical void by analyzing access to green finance-based financing within the UMi AMBO program, thereby contributing to a more comprehensive understanding of sustainable economic development at the grassroots level (Yuliawati et al., 2022).

From the perspective of community welfare, there are still challenges due to poverty, although skills are not the only factor that is always relevant. Therefore, there is a solution to overcome poverty through access to financing based on green finance. With the opportunity for economic growth, financial services institutions are expected to be able to develop a model of access to financing that is not only profit-oriented but also considers environmental sustainability (Bayu 2021). The main objective of this study is to analyze access to green finance-based financing in the UMi AMBO program in Padang and provide a deeper understanding as a basis for formulating sustainable financing policies in the area. Based on the argument that previous research lacks depth, this study seeks to answer three main questions. First, to what extent can green finance-based financing access be applied in the UMi AMBO program in Padang.

Second, how is the implementation of green finance-based financing in the case study of this program. Third, to what extent is the green finance approach effective in the UMi AMBO program in Padang. The answers to these three questions are expected to provide a more comprehensive insight into the successes and challenges in implementing this program. In addition, the findings

of this research will provide a strong basis for the formulation of more effective and inclusive policies in supporting access to green finance-based financing in Padang.

## 2. METHODS

This study adopted a qualitative research approach to deeply explore and understand its central phenomenon. This approach aligns with Raco's (2010) definition of qualitative methods as a means to delve into and comprehend a core issue. To gather the necessary information, the researchers conducted field research. This form of qualitative inquiry involves direct observation and participation at the data's source, whether in small or large-scale settings (Sugiarti, Andalas, and Setiawan 2020). The primary instruments used for data collection in this study were. To gain in depth insights and direct perspectives from participants. Participants were purposively selected based on criteria relevant to the research focus, such as their involvement in the UMi AMBO program or their experiences related to green finance. The selection process involved identifying key individuals who possessed rich information and diverse viewpoints on the topic. Interviews were conducted until data saturation was reached, meaning no significant new information emerged.

Data analysis is crucial for processing field-obtained information and answering research questions (Maryati and Suryawanti 2014). This study employed inductive data analysis, a technique that draws broad conclusions from specific facts. Data collected through observation underwent a thorough process of collection, review, and re-processing before being checked for completeness, applied, and interpreted according to established criteria. Data from interviews were processed using a descriptive qualitative analysis method, which involves formulating findings in narrative, word-based forms rather than numerical ones. To ensure data validity, this research implemented data triangulation. This involved comparing and confirming information obtained from various sources—interviews, observations, and documentation—to enhance the credibility of the findings. Additionally, member checking was performed by presenting a summary of the findings to several key participants to validate the researchers' interpretation of their data.

### 3. RESULT AND FINDINGS ANALYSIS

#### Access to UMi Financing

Access to Ultra Micro (UMi) financing is specifically designed for ultra-micro businesses. However, they are generally unable to access bank financing or are not yet bankable. Therefore, the Government launched UMi financing as one of the national priority programs so that ultra-micro businesses can grow, upgrade to bankable, and make a greater contribution to the Indonesian economy (Kemenkeu 2024).

The government through the Indonesian Ministry of Finance mandates the Government Investment Center (PIP) to become the coordinated fund for UMi Financing. To carry out this mandate, PIP receives an allocation of funds from the state budget. Until the end of 2021, APBN funding to PIP reached IDR 10 trillion. PIP as a fund manager does not directly channel financing to Ultra Micro businesses. Funds from PIP are channeled through Non-Bank Financial Institutions (LKBB), both as direct distributors and linkages. The channeling mechanism through channeling partners aims to ensure that the know-your-customer (KYC) principle can be applied. This is because channel partners know the characteristics of the debtors so that the number of non-performing loans (NPLs) can be reduced as low as possible.

To maximize funding from the APBN, channeling partners are required to roll over the remaining funds that have not yet matured in the form of UMi Financing. With a capital of IDR 10 trillion, the value of UMi Financing at the end of 2021 could reach IDR 18.09 trillion (Kemenkeu 2024). Starting in 2021, PIP collaborates with non-government-affiliated LKBBs. Eight (8) non-government-affiliated LKBBs have received approval to channel UMI financing: one LKBB has a license to channel conventional and sharia financing, three conventional LKBBs, and four sharia LKBBs. Three non-government-affiliated LKBBs have channeled financing to UMi actors, namely An Nisa Sharia Consumer Cooperative, KSPPS Bhakti Huria Syariah, and KSPPS BMT Mandiri Sejahtera Syariah. As of the end of 2021, BLU-PIP has collaborated with 55 channeling partners, consisting of 10 direct channelers, 1 indirect channeler, and 44 linkage institutions. Meanwhile, the number of UMi Financing debtors as of December 31, 2021 reached 5.39 million UMi actors (Kemenkeu 2024).

The UMi AMBO program is owned by the West Sumatra government investment center. DJPB informed that there is a program from PIP under the auspices of the Ministry of Finance, where DJPB promotes existing financing

programs from the government, most people's mindset is that there are KUR funds, there are cooperative funds, these are actually funds from the government which are channeled through the Ministry of Finance.

Even though it is a banking product, the one who carries out the monitoring and evaluation is the Directorate General of the Treasury of West Sumatra, which is tasked with supervising and evaluating all parties, both district and city government institutions and cooperatives (Ministry of Finance, 2024). Furthermore, the Head of the UMi AMBO Division explained: "We as a monitoring and evaluation team or Supervision Division, we come to the distributor in collaboration with the Provincial Office, before signing the agreement with the cooperative appointed as the distributor. There is a curation process first, before the curation process we propose the names to the PIP. After meeting the general information requirements, we ensure that the business has been running for 2 years and its NPL is less than 5%." (Interview with Chairiaka, Head of Division, September 10, 2024)

In addition, the Division's Executive Staff (Ica) explained: "That institutions that are already legal entities such as cooperatives and Village-owned Business Entities. If the community wants to get financing, we recommend that they become distributors who have a legal entity first. After the curation process, we will assist in the registration process through the Ministry of Finance's SIKP application." (Interview with Icha, Executive Staff, September 10, 2024) The Head of the Program Division also added: "There are several stages that must be met, for the procedure for distributing funds, it is not directly to the MSMEs but There are non-bank financial institutions (LKBB) that come to manage their funds, namely PT BAV, Pegadaian, PNM, and PT Revi. Since 2017, there have been 4 non-bank financial institutions, but lately they have been more aggressive towards cooperatives and their business entities." (Interview with Chairiaka, Head of Program Division, September 10, 2024).

"Meanwhile, for the scale of Non-Bank Financial Institutions, it can get 5 billion if divided by individuals, around 20 million, approximately 250 individuals will receive financing. The DJPB wants there to be synergy in the process of distributing the DJPB's functional duties as a Financial Advisor. The agreement used is a sharia agreement such as mudharabah. Yesterday we also made an agreement with BMT Muhammadiyah and also held a cooperation agreement with us" (Interview with Icha, Executive Staff, September 10, 2024)

Head of Division Chairiaka explained: "For special policies, we have designed several policies to ensure that the UMi Ambo program can be accessed more easily, especially for business actors involved in environmentally friendly activities. Some of these policies include. We provide a financing scheme with lower interest for business actors who support green business practices. The goal is to encourage more business actors to adopt environmentally friendly methods. We work with several financial institutions that focus on environmentally based financing, such as Islamic banks and cooperatives that have a special focus on sustainability.

This makes it easier for small business actors to get access to financing with more flexible requirements. In addition to funding, we also provide educational and mentoring programs to help entrepreneurs understand how they can apply financial concepts to their businesses. This includes training on energy efficiency, waste management, and the use of environmentally friendly technologies. We have also built a digital platform that simplifies the financing application process. Through the platform, entrepreneurs can apply for financing more quickly, and evaluations are carried out by considering the business's contribution to the environment." (Interview with Chairiaka, Head of Program Division, September 10, 2024)

Shandy, Environmental Staff of DJPB explained: "So far, the policy has been well received, especially by micro-business actors who are committed to environmental sustainability. We continue to monitor its impact, and there has been a significant increase in the number of business actors utilizing this financing. We believe that this green finance approach will bring long-term benefits, both economically and environmentally". (interview with Shandy, Environmental Staff, September 10, 2024) Meanwhile, Head of Program Division Chairiaka explained "the procedure for applying for green finance-based financing in the UMi AMBO program has several differences compared to financing from banks or conventional financial institutions. In general, business actors must start by preparing a business proposal that explains their business activities, especially those related to environmentally friendly practices.

The proposal must include a business plan that supports sustainability principles, such as better waste management. After that, there is an environmentally friendly feasibility assessment process where the business will be assessed based on its contribution to environmental preservation. A special team will evaluate whether the business meets the established

environmentally friendly criteria. Furthermore, submissions can be made through a digital platform that makes it easy for business actors to register online. They only need to upload the required documents, such as proposals, financial reports, business legality documents, and information related to environmentally friendly practices.” (Interview with Chairiaka, Head of Program Division, September 10, 2024)

Before approval, business actors will undergo technical assistance. At this stage, they will be given education and assistance on how to manage their business to be more environmentally friendly, including efficient resource management and the application of green technology. After all administrative and assessment processes are complete, business actors will sign a financing contract, and funds will be disbursed through financial partner institutions that have collaborated with the UMi AMBO program. Although there is an additional environmental assessment aspect, this procedure is no more difficult than applying for financing at conventional financial institutions. With the digital platform and technical assistance, business actors actually get more convenience, so that those who want to contribute to environmental sustainability do not feel burdened.” (Interview with Chairiaka, Head of Program Division, September 10, 2024)

Icha as the Implementing Staff explained: “DJPB Sumbar has several main strategies in expanding access to financing for MSMEs in West Sumatra. This strategy is focused on ensuring that MSMEs, especially those with limited access to formal financial institutions, can obtain the right financing. One of the strategies taken is to expand partnerships with financial and non-financial institutions, such as cooperatives and microfinance institutions, to create an inclusive funding network. In addition, DJPB Sumbar also encourages digitalization in the financing application process, so that MSMEs, especially in remote areas, can access financing more easily through a fast and transparent digital platform. DJPB Sumbar also provides a fostered financing scheme for MSMEs, especially in priority sectors such as agriculture, tourism, and the creative industry. In addition to financing, they run financial assistance and education programs to help MSMEs manage their finances and develop their businesses properly. In addition, DJPB Sumbar also introduces finance-based financing by providing special rewards to MSMEs that implement environmentally friendly practices. With this strategy, DJPB Sumbar hopes to have a positive impact on the growth of MSMEs, while encouraging economic and environmental sustainability in West Sumatra.” (Interview with Icha Implementing Staff, September 10, 2024)

The flow of the ultra-micro financing distribution mechanism through two patterns, namely through a direct distribution pattern and an indirect distribution pattern. The direct distribution pattern is funds distributed from the Public Service Agency (BLU) of the government's investment center to bank financial institutions as distributors such as PT Pembiayaan Nasional Madani and PT Pegadaian, which will distribute directly to debtors. And the indirect distribution pattern is funds distributed from the Public Service Agency (BLU) of the government's investment center to non-bank financial institutions as distributors such as PT Bahana Artha Ventura, which then PT Bahana Artha Ventura distributes to linkage institutions (cooperatives/LKM) first, then distributed to debtors.

The flow of financing for the UMI AMBO program. Head of the UMi AMBO Program Division Chairiaka explained: "We distribute to distributors by opening a flow through Registration as a Prospective Distributor (e-Proposal) prepared on the website in the form of a SIKP UMi application registration link, there prospective distributors can register for e-proposal submissions, there is a form of filling in data for participant account needs. " (Interview with Chairiaka, Head of Program Division, September 10, 2024)

**Figure 1 Distributor Register Image**



Data Source: SIKP website, 2024

Next, the determination of the distributor of Non-Bank Financial Institutions (LKBB) The Implementing Staff Explains: "In the application process to become a distributor to PIP, submissions can be made directly online via <https://e-proposal.umi.id>. then PIP analyzes and decides in a committee meeting. Furthermore, the issuance of the PIP President Director's

decision regarding the determination of the distributor candidate." Interview with Icha Implementing Staff, September 10, 2024)

If the committee's decision is positive, the next step is the issuance of an official decision from the PIP President Director regarding the determination of the distributor candidate. This decision includes the determination of the distributor candidate's status and details about the roles and responsibilities that will be carried out. The issuance of this decision is the final step in the process, and the selected distributor candidate will receive official notification and further instructions.

Furthermore, the implementing staff Icha explained the determination, requirements to become a distributor and the funding mechanism: "In the determination, of course, prospective distributors must complete the required documents that are set as non-bank financial institutions, have experience in financing MSMEs, min. 2 years, NPL 5% and a letter of application to become a distributor addressed to the director." (Interview Icha, September 10, 2024).

Once all requirements and complete documents are received, the analysis process will continue, and a decision will be made based on a thorough evaluation. If approved, the prospective distributor will be notified through an official decree from the PIP president director regarding their determination as a distributor. The funding mechanism applied will follow the procedures and provisions set by PIP. The prospective distributor who has been determined will be integrated into the funding system and will receive further instructions regarding the next steps in the funding process.

Furthermore, the head of the program division, Chairiaka, explained: "The distributor submits an application, PIP analyzes it, the determination of the financing approval letter and the signing of the agreement are processed for 22 working days, then re-analyzed." (Interview with Ote, September 10, 2024) Furthermore, the funding cooperation mechanism, the head of the division explained: "That we carry out procedural rules that must be determined and obeyed by other parties. The existence of cooperation between PIP and the Regional Government and other parties submitting applications and explorations and signing cooperation with the regional government, then the cooperative and non-bank parties follow the applicable regulations." (Interview with Chairiaka, Head of the Program Division, September 10, 2024)

### **Implementation of Green Finance-based Financing for the UMi AMBO Program Study**

Shandy, the Implementing Staff, explained: “The implementation of financing through a strict monitoring and evaluation mechanism to ensure that the financing channeled through the UMi AMBO program is used in accordance with environmentally friendly principles. After the financing is approved and the funds are disbursed, we take several supervisory steps to ensure that business actors actually implement environmentally friendly practices in accordance with the submitted proposal. First, we conduct periodic field reviews to directly monitor how the business operates.

Our team will visit the business location and see whether the commitment to using environmentally friendly technology, good waste management, or carbon emission reduction is implemented according to plan. Second, we request periodic reporting from business actors. They are required to provide periodic reports covering business developments, use of funds, and the resulting environmental impact. The report will be evaluated by our team to ensure that the funds are used efficiently and in accordance with sustainability goals. In addition, we also implement technical assistance and evaluation. Business actors who receive financing will continue to be assisted to ensure that they continue to run their businesses in accordance with applicable regulatory principles. If any irregularities or discrepancies in the use of funds are found, we will immediately provide suggestions for improvement, and in more serious cases, corrective action can be taken, including a review of funding.” (Interview with Shandy, Executive Staff, September 10, 2024)

Nurdin, Executive Staff II explained: “There are certainly challenges, especially in terms of distance and limited human resources to carry out monitoring throughout the region. However, with digital technology, we can monitor most aspects online. In addition, we also utilize cooperation with partner institutions in the field to assist in the monitoring process. We are confident that with structured monitoring and evaluation, the financing disbursed can have a real impact in supporting environmental and economic sustainability.” (Interview with Nurdin, September 10, 2024)

Icha, the Executive Staff explained: “DJPB Sumbar provides comprehensive support to Financing recipients to ensure that they not only gain access to financing, but are also able to run their businesses successfully and sustainably. This support includes several important aspects. First, we provide

regular technical assistance and consultation. Financing recipients will receive guidance from our experts on how to apply sustainability principles in their businesses. The goal is to ensure that the business is not only financially profitable, but also has a positive impact on the environment.

Second, we facilitate access to markets for products produced by MSMEs that focus on environmentally friendly practices. DJPB Sumbar collaborates with various parties, including financial institutions, local governments, and non-governmental organizations, to open up opportunities for business actors to expand their market reach. That way, MSME actors are not only limited to the local market, but also have the opportunity to penetrate the national and even international markets.

Third, we provide regular training and education programs. In this program, business actors will be equipped with managerial skills, financial management, and sustainable business development strategies. This training aims to increase their capacity in managing their businesses and ensure they remain competitive in a market that increasingly demands environmentally friendly products. In addition, DJPB Sumbar also collaborates with various financial partners to provide further financial support if business actors need additional financing to further develop their businesses. We strive to provide easier and more flexible access so that they can continue to grow without being constrained by financing problems." interview Icha Implementing Staff, September 10, 2024)

The Implementing Division Staff explained " The response from the recipients of the financing was very positive. They felt helped by the assistance we provided, especially in terms of implementing green technology and access to a wider market. Many of them feel more confident in running their businesses because this support helps them not only in terms of financing, but also in terms of improving skills and business opportunities. We are confident that this support will continue to have a significant impact on the development of their businesses." (Interview with Icha, Executive Staff, September 10, 2024)

Head of Program Division Explains: "That DJPB hopes that the implementation of the UMi AMBO program can have a significant impact on improving the local economy in West Sumatra. Through this program, we strive to support the growth of MSMEs which are the backbone of the regional economy. By expanding access to financing, we hope to encourage the creation of more jobs, increase the competitiveness of local products, and develop sustainable businesses. We also hope that the implementation of green finance

through this program can increase the awareness of business actors to run more environmentally friendly businesses, so that they not only contribute to economic growth, but also to environmental preservation." Interview with Chairiaka, Head of Program Division, September 10, 2024)

Head of Program Division (Chairiaka) Explains: "The implementation of green finance in the UMi AMBO program has started to run well. We have included environmentally friendly criteria in the assessment of the feasibility of businesses applying for financing. Business actors who wish to receive financing must demonstrate a commitment to environmental sustainability, either through the use of renewable energy, good waste management, or other business practices that support environmental sustainability. In addition, we also provide assistance and education to recipients of financing so that they can understand how to run a business with the principles of a green economy. Although there are still challenges in implementation in the field, especially in the MSME sector which is not yet familiar with this concept, we are optimistic that this program will become stronger and have a positive impact in the long term." There are several recommendations that we have to improve access and implementation in the UMi AMBO program.

First, we need to strengthen education for MSMEs regarding the benefits and importance of implementing green finance. This can be done through more intensive training and counseling at the regional level so that MSMEs better understand how sustainability principles can be applied in their businesses.

Second, we also recommend expanding cooperation with financial institutions that focus on MSMEs to upgrade and green financing, so that more business actors can get access to environmentally friendly financing schemes. "(Chairiaka Head of Program Division, September 10, 2024). Implementing Staff Icha explained: "We only focus on Non-Bank Financial Institutions (LKBB) and of course those that have not been touched by the community who have never received financing from a bank." (Interview with Icha Implementing Staff, September 10, 2024).

### **Effectiveness of AMBO UMi Financing Distribution**

Measuring effectiveness is not a very simple thing, because effectiveness can be studied from various perspectives and depends on who assesses and interprets it. Effectiveness shows success in terms of achieving the set targets. If the results of the activity are getting closer to the target, it means the effectiveness is higher. From several expert opinions, it can be concluded that

a job can be carried out properly, effectively, efficiently if the job is carried out properly according to what has been planned. For this reason, effectiveness shows the ability of a company to achieve the targets (final results) that have been set properly. Achieving final results that are in accordance with the set time target and applicable measures or standards reflects that a company has paid attention to its operational effectiveness.

**Table 1. Distribution of Ultra Micro Financing of the Ministry of Finance  
2017-2024**

Year	Target Financing(Rp)	Financing Realization (Rp)	Number of Recipient MSMEs	Effectiveness Level (%)
2017	16.000.000.000	15.200.000.000	3100	95
18	19.000.000.000	18.500.000.000	3700	97,36842105
019	23.500.000.000	22.700.000.000	4400	96,59574468
2020	26.000.000.000	25.600.000.000	5100	98,46153846
2021	30.000.000.000	28.300000000	5900	94,33333333
2022	34.000.000.000	32.100.000.000	7000	94,41176471
2023	38.000.000.000	35.700.000.000	8300	93,94736842
2024	32.000.000.000	29300000000	7604	91,5625
TOTAL	218.500.000.000	207.400.000.000	45104	94,91990847

*Data Source: Processed 2025*

Based on the table description above, it shows that the Ministry of Finance's financing distribution activities from 2017-2024 were Very Effective. In 2017, the financing target of IDR 16,000,000,000 was achieved by 95%, with 3,100 MSMEs receiving benefits. Although there was a slight difference between the target and the realization, this program showed quite good management in the first year. In 2018, there was a significant increase in effectiveness with a figure reaching 97.37%, thanks to better financing distribution and an increase in the number of beneficiaries to 3,700 MSMEs.

This indicates that the program is increasingly efficient in distributing financing to MSME actors. In 2019, although the financing target was larger, namely IDR 23,500,000,000, the level of effectiveness decreased slightly to 96.60%, with the number of MSME recipients increasing to 4,400. This slight decrease in effectiveness could be influenced by the challenges in achieving the increasingly large targets and economic dynamics that may affect the ability of MSMEs to utilize financing. 2020 recorded the highest level of effectiveness at 98.46%, despite major challenges due to the COVID-19

pandemic. The financing target of IDR 26,000,000,000 was realized at IDR 25,600,000,000, and the number of beneficiaries increased significantly to 5,100 MSMEs. This reflects the success of the program in adapting to challenging conditions and continuing to have a positive impact.

However, in 2021, the level of effectiveness decreased to 94.33%, although the number of beneficiaries increased to 5,900 MSMEs. This decrease can be explained by economic uncertainty and the challenges faced by MSMEs in accessing large amounts of financing. 2022 saw a slight increase to 94.41%, with 7,000 MSMEs receiving benefits, although there was still a slight decrease in effectiveness.

The year 2023 recorded a further decline in the effectiveness rate to 93.95%, with 8,300 MSMEs receiving benefits. This decline may have been influenced by various external factors, such as economic instability affecting the absorption of financing by MSMEs. In 2024, the effectiveness rate further declined to 91.56%, although the number of beneficiaries remained high, at 7,604 MSMEs. Overall, despite the decline in the effectiveness rate of financing since 2020, the program continues to show significant results in supporting MSMEs. The total realization of financing from 2017 to 2024 reached IDR 207,400,000,000, which was distributed to 45,104 MSMEs with an average effectiveness rate of 94.92%. This shows that despite the challenges in achieving higher targets and external conditions that affect it, the program continues to make an important contribution to empowering the MSME sector.

## **Discussions**

Relevance of UMi AMBO to Islamic Economic Principles the UMi AMBO program adopts Sharia contracts such as *mudharabah* and partners with Islamic financial cooperatives and BMTs, aligning its approach with fundamental principles of Islamic finance. In Islam, financial systems must be free from *riba* (usury), *gharar* (uncertainty), and *maisir* (speculation). This program encourages just partnerships between financiers and entrepreneurs through profit-and-loss sharing schemes rather than interest-bearing loans. Such a model aligns with the objectives of *maqashid sharia*, particularly in preserving wealth (*hifz al-mal*) and protecting the environment (*hifz al-bi'ah*).

Moreover, the incorporation of green finance principles into UMi AMBO enhances the concept of *maslahah* (public benefit), as it encourages microenterprises to adopt environmentally sustainable practices. Islamic

teachings emphasize stewardship of the earth, and thus integrating environmental values into Sharia-based finance reflects a holistic approach to socio-economic development rooted in Islamic ethics.

In general, the results of the study indicate that access to financing through the UMi AMBO program in this study, identified that ultra-micro financing (UMi) offers the availability of facilities and infrastructure in a financing system as a crucial aspect in determining the effectiveness and efficiency of program implementation. Based on the data presented, it can be concluded that financing services already have several essential supporting infrastructures, such as financing service offices, digital-based administration systems, program counseling or socialization, and written guidelines for prospective beneficiaries(Kong et al. 2023).

The existence of a financing service office indicates accessibility for prospective beneficiaries in obtaining information and completing administrative procedures(Li et al. 2023). This is in line with findings in the development economics literature which emphasizes that the physical accessibility of financial services can increase community participation in financing schemes.

Several studies (Nurhayati and Nurjamil 2019). show that digitalization in the financial sector not only increases operational efficiency but also expands financial inclusion, especially in areas with limited access to conventional banking services. Another aspect that is available is program counseling or socialization and written guidelines for prospective beneficiaries(Dervi et al. 2022; Mirza et al. 2023; Yao et al. 2023).

Counseling has a strategic role in improving financial literacy and public understanding of the mechanisms and benefits of financing programs. Meanwhile, written guidelines serve as an official reference for prospective recipients, which can help them understand their rights and obligations in the financing process. Good financial literacy is the main determinant of the success of a financing program, as expressed by (Kapa et al. 2022) in their study on the relationship between financial literacy and successful financing management.

However, the aspect that is still a challenge is the unavailability of environmentally friendly technology support in financing. In the context of green finance, the use of sustainable technology in financial services is a factor that is increasingly emphasized in various global policies, including in the implementation of the Sustainable Development Goals (SDGs) and

commitment to the principles of Environmental, Social, and Governance (ESG)(Cheng, Gupta, and Rajan 2023).

The absence of environmentally friendly technology in the financing system can be an indicator that there is still a gap between conventional financing policies and sustainability principles. Therefore, further efforts are needed to integrate sustainability aspects into the design of financing programs, both through incentives for the use of green technology and the implementation of regulations that support the transition to sustainable finance(Lee, Song, and Lee 2023).

Thus, although financing services already have adequate basic infrastructure, there is still room for improvement, especially in adopting a sustainable approach. Integrating sustainability aspects into the financing system will not only improve the efficiency of the program in the long term, but also strengthen the overall competitiveness of the economy by adapting to global trends in sustainable finance(Zhang and Wang 2021).

This finding highlights the urgency to evaluate and refine the mechanisms and policies underlying ultra-micro financing programs, so that they can be more effective in achieving economic empowerment goals at the micro level. This is in line with the findings of(Rudiyanto 2022). which highlights the needs of MSMEs and Institutions in providing access to financing(Arif et al. 2022; Dai and Zhang 2024).

One of the underlying reasons lies in the difference in perception between MSME actors and institutions regarding the nature of the financing provided. In Rudiyanto's research, MSME actors expect more flexible financial assistance supported by technical training, while institutions tend to apply stricter and more formal procedures for evaluating financing eligibility.

A similar thing happened in the UMi AMBO program, where despite efforts to provide financing that is more accessible to MSMEs, many business actors consider that the existing requirements still limit their access to the financing they need.

The Ministry of Finance's institutions are too bureaucratic and do not take into account the special characteristics of micro and ultra-micro businesses. Meanwhile, green finance-based financing programs such as UMi are expected to provide more inclusive solutions by considering the social and environmental impacts of the businesses being funded. This approach is in line with this research which also involves in-depth interviews with institutions

and MSME actors and related parties to gain a more comprehensive understanding of the obstacles they face in accessing green finance-based financing(Dong, Wang, and Baloch 2023; Mirza et al. 2023).

Overall, these findings indicate the importance of simplifying procedures and improving the quality of services more deeply from banks, as well as strengthening the capacity of MSMEs in terms of understanding more sustainable and environmentally friendly financing.

Thus, this study emphasizes that financing institutions must improve the match between the services offered and the real needs of MSME actors. One of the main problems is the lack of standardization and clear definition of what is included in the category of green financing. In line with research(Zofia, Marek, and Marcin 2023) Green Financial Policy, Resource Allocation and Corporate Environmental Responsibility green financing policies have emerged as a major driver for sustainable development worldwide, green financing policies affect corporate environmental responsibility in achieving sustainable development goals at the micro level(George, Huang, and Xie 2022; Sinha et al. 2023).

Looking deeper into the distribution data from 2017 to 2024, it can be concluded that this program has been very effective in eradicating loan sharks in achieving its goals. In addition, easier access to capital also plays a major role in encouraging business actors to utilize existing financing. However, if the existing system is unable to guarantee transparency, accuracy, and effectiveness in program implementation, then efforts to empower the micro sector will be hampered, not only by administrative incompetence, but also by growing distrust among beneficiaries.

It should be noted that the administrative problems that arise not only harm the credibility of the program, but also reflect weaknesses in the management and administration of public resources(Liu and Abu Hatab 2023; Pertseva 2022). Non-transparent, inconsistent, and inaccurate data can reduce public and stakeholder trust in the financing program, which is supposed to help the micro and small business sector develop. The implementation of a more sophisticated and integrated digitalization system will help simplify the verification and monitoring process in real time, allowing each transaction to be monitored and evaluated more effectively.

#### **4. CONCLUSION**

The UMi AMBO program's approach to green finance makes a clear and significant contribution to developing Sharia-compliant microfinance in Indonesia. By using Islamic contracts like mudharabah, the program empowers small businesses while avoiding riba (interest), which is prohibited in Islam. This ethical financial model seamlessly integrates with a focus on environmentally friendly business practices, showing how Islamic values can work hand-in-hand with global sustainability efforts to protect the environment and natural resources. The program strongly upholds key Sharia economic principles, including justice ('adl), balance (tawazun), the prohibition of riba, and social responsibility (maslahah). Its profit-and-loss sharing mechanism ensures that risks and returns are fairly distributed, promoting sustainability and shared prosperity. The UMi AMBO program also plays a crucial role in boosting Sharia financial inclusion for micro-entrepreneurs who might otherwise face barriers with conventional financing.

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#### **CONFLICT OF INTERESTS:**

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