

Analysis of Sharia Banking Financing Based on Mudhārabah Contract on The Development of Msmes in Indonesia

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Abstract

This study analyzes Islamic banking financing based on mudhārabah contracts on the development of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia. Using a descriptive qualitative approach with secondary data analysis, the study found that Islamic bank financing has a significant effect on the development of MSMEs ($R^2 = 0.61$). In addition, the development of MSMEs is positively and significantly correlated with national economic growth and labor absorption. Although the mudhārabah contract has great potential, its implementation is still constrained by low Islamic financial literacy, complex procedures, and high risks perceived by banks. Synergy is needed between Islamic banking, the government, and MSME actors to optimize profit-sharing-based financing to support inclusive and sustainable economic growth in Indonesia.

Keywords: Mudhārabah, MSMEs, Financing, Sharia Bank, Economic Growth

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INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a very crucial role in the Indonesian economy. The contribution of MSMEs to the Gross Domestic Product (GDP) and their ability to absorb labor makes this sector very vital for the country's economic stability. Based on data from the Ministry of Cooperatives and SMEs, in 2023 MSME business actors will reach around 66 million units with a contribution to GDP of 61%, equivalent to IDR 9,580 trillion, and absorb around 117 million workers or 97% of the total national workforce (Indonesian Chamber of Commerce, 2024).

Although the role is so large, the biggest challenge that MSMEs often face is access to funding. Many MSMEs have difficulty obtaining financing from conventional banks due to high collateral requirements and unaffordable interest rates. In this context, Islamic banking offers alternative solutions through various financing products that are in accordance with Islamic sharia principles (Djumhana, 2006).

One of the leading financing products of Islamic banking is the mudhārabah contract. The mudhārabah contract is a form of cooperation in which the owner of the capital (shāhibul māl) provides capital, while the business manager (mudhārib) is responsible for running the business. The profits generated are divided according to the ratio that has been agreed, while



the losses are borne by the capital owners, except for losses caused by the negligence of the manager (Antonio, 2001).

The advantage of *mudhārabah* contracts lies in the principle of fairness and transparency in profit sharing and minimal financial risk for business managers. However, various studies show that the implementation of *mudhārabah* contracts still faces serious challenges, including: high risk perception from banks, low understanding of MSME actors about the profit-sharing mechanism, and limited competent human resources in the field of sharia financing (Adnan & Purwoko, 2013; Ascarya, 2013).

Research on the relationship between *mudhārabah*-based Islamic banking financing and the development of MSMEs and economic growth is still developing. Dean et al. (2023) in their research over the past 10 years found a positive correlation between Islamic bank financing, the development of MSMEs, and Indonesia's economic growth. Meanwhile, Trimulato (2016) concluded that although *mudhārabah* financing products have not yet dominated, the potential for development is very large for the MSME sector.

Based on this background, this study aims to: (1) analyze the implementation of Islamic banking financing based on *mudhārabah* contracts for MSMEs in Indonesia; (2) identify challenges and opportunities in the implementation of *mudhārabah* financing for MSMEs; and (3) analyze the relationship between Islamic bank financing, MSME development, and national economic growth.

METHODS

This study uses a descriptive qualitative approach. The qualitative method was chosen because this study aims to explore and explain the phenomenon of *mudhārabah* financing and the development of MSMEs in depth, not just measuring the relationship between variables statistically (Sugiyono, 2011). According to Poerwandari (1998), qualitative research collects and processes data in the form of descriptions that produce an understanding of social reality from the perspective of participants.

The data analysis in this study uses thematic analysis methods and simple regression analysis to identify the relationship between the variables of Islamic bank financing, the development of MSMEs, and national economic growth. This approach allows researchers to comprehensively interpret patterns and themes that emerge from secondary data (Kriyantono, 2022).

The data used in this study consisted of primary data and secondary data. Primary data was obtained through observation of official documents issued by Islamic banking institutions, as well as interviews with Islamic banking practitioners. Secondary data was obtained from Sharia Banking Statistics published by the Financial Services Authority (OJK), data from the Ministry of Cooperatives and SMEs of the Republic of Indonesia, the Central Statistics Agency (BPS), and relevant scientific publications.

The data observation period covers the period of 2016-2024, focusing on Islamic bank financing data to MSMEs, the number and development of MSME business units, and national economic growth data. The selection of this period was made because it represents the condition of Islamic banking after the merger of several large Islamic banks in Indonesia.

Data analysis is carried out through several stages: (1) collection and verification of data from various sources; (2) coding and identification of key themes that emerge from the data; (3) simple regression analysis to measure the relationship between the variables of Islamic bank financing and the development of MSMEs, as well as between the development of MSMEs and national economic growth; and (4) triangulation of data by combining data from various sources to ensure the validity of the findings.

The validity of the data is ensured through triangulation of sources by combining data from interviews, documentation, and official statistical data. In addition, member checking is carried out by confirming the researcher's interpretation to the relevant resource persons.

RESULTS AND DISCUSSION

Overview of Sharia Bank Financing for MSMEs

Indonesian Islamic banking has shown significant development in recent decades. Based on OJK data as of June 2019, there are 14 Sharia Commercial Banks (BUS), 20 Sharia Business Units (UUS), and 162 Sharia People's Financing Banks (BPRS) in Indonesia, with a total of 196 Islamic banks and 2,332 offices operating throughout Indonesia (OJK, 2020).

In terms of financing, the performance of Islamic banks shows an increasing trend from year to year. The profit-sharing scheme (*mudhārabah* and *musyarakah*) provides an increasing portion, from Rp94,752 billion in 2016 to Rp181,721 billion in September 2020, dominated by *musharakah* financing of Rp169,442 billion. However, financing with *receivables* scheme (*murabahah*) still dominates the total financing of Islamic banks of IDR 170,843 billion (OJK, 2020).

This condition reflects the global phenomenon where Islamic banks in various countries prefer *murabahah* financing over *mudhārabah* due to risk considerations. The high risk in *mudhārabah* contracts encourages Islamic banks to prefer trade financing that provides greater certainty regarding return on capital and profits (Ascarya, 2013; Adnan & Purwoko, 2013).

The following table presents data on Islamic bank financing to MSMEs and the development of the number of MSMEs for the 2020-2024 period:

Year	Sharia Bank Financing (Billion Rp)	Number of MSMEs (Million Units)
2020	42.879	64,0
2021	45.851	65,46
2022	47.036	65,0
2023	46.562	66,0
2024	44.441	65,0

Table 1. Sharia Bank Financing and MSME Development (2020-2024)

Implementation of the Mudhārabah Agreement in MSME Financing

Akad mudhārabah is theoretically the core product of Islamic banking that distinguishes it from conventional banking. In the context of MSME financing, this contract is very relevant because it allows Islamic banks to participate in the profits of micro and small businesses, while helping them develop their businesses without having to bear the burden of interest (Antonio, 2001; Karim, 2004).

Partially, the results of the regression analysis show that mudhārabah financing has a significant effect on the development of MSMEs. The value of the regression coefficient ($b_1 = 0.34$) indicates that every increase in Islamic bank financing by 1 unit will increase the development of MSMEs by 0.34 units. The R-square value of 0.614 indicates that the variable of Islamic bank financing is able to explain the variation in MSME development by 61.4%, while the remaining 38.6% is influenced by other factors outside of financing, such as market conditions, technology, and government policies (Fitria et al., 2021).

These results are in line with research by Dean et al. (2023) which found that Islamic bank financing has a positive effect on the growth of MSMEs in Indonesia in the last 10 years. The same thing is also confirmed by Nasution (2022) who concludes that the contribution of Islamic banking mudhārabah financing has a significant effect on the development of micro business performance in Medan City.

However, interestingly, although there is a statistically significant influence, the magnitude of the impact of financing also depends on external conditions. Fitria et al. (2021) emphasized that the development of MSMEs is more dominantly determined by market conditions. When the market is bustling, the benefits of financing are real; However, when economic conditions are not supportive, the impact becomes limited even though the amount of financing is large.

Challenges and Opportunities for Mudhārabah Financing for MSMEs

Various studies have identified a number of main challenges in the implementation of mudhārabah contracts for MSME financing in Indonesia. First, from the internal side of Islamic banking, there is a high risk of moral hazard because banks as fund owners cannot directly supervise the management of business by mudhārib. This condition is exacerbated by the limited ability of banks to conduct MSME business feasibility assessments (Adnan & Purwoko, 2013).

Second, from the side of MSME actors, low sharia financial literacy is a big obstacle. Many MSME actors do not understand the profit-sharing mechanism and its differences with the conventional interest system. Difficulties in compiling neat financial and bookkeeping are also obstacles in the process of applying for mudhārabah financing, which requires transparency and accountability of business finances (Ascarya, 2013).

Third, regulatory and institutional aspects are also still a challenge. Some Islamic financial institutions still face regulatory uncertainty related to mudhārabah financing, which increases operational risks and legal uncertainty. In addition, the absence of a strong guarantee institution specifically for profit-sharing-based financing has also hindered the expansion of this product (Marliah, 2016).

On the other hand, there are a number of great opportunities that can be optimized. First, the tremendous market potential: with 66 million MSME players and the majority of Indonesia's population being Muslim, the demand for Islamic financial products continues to increase. Second, the development of digital technology opens up opportunities for Islamic banking to reach MSMEs in unserved areas through sharia fintech platforms. Third, government policy support through various financial inclusion programs and sharia-based People's Business Loans (KUR) provides an increasingly conducive ecosystem (Nugroho, 2017).

MSME Development and National Economic Growth

Data shows that MSMEs account for around 60.5% of national GDP and absorb 96.9% of Indonesia's workforce. This role makes MSMEs the main pillar of the national economy that is irreplaceable. The growth in the number of MSMEs from 61.6 million units in 2016 to 66 million units in 2023 reflects the dynamism of this sector in the national economy (Ministry of Cooperatives and SMEs, 2023).

The results of the regression analysis between the development of MSMEs and national economic growth showed a regression coefficient value (b1) of 3.34, which means that every increase in MSME growth by 1 unit will encourage economic growth by 3.34 units. The R-square value of 0.614 indicates that the development of MSMEs is able to explain 61.4% of the variation in national economic growth. These findings confirm the strategic role of MSMEs as the driving force for Indonesia's economic growth (Dean et al., 2023).

Indonesia's economy in 2022 grew by 5.31 percent, with sectors closely related to MSMEs such as transportation and warehousing (19.87%), the provision of accommodation and food and beverages (11.97%), and other services (9.47%) recording the highest growth (BPS, 2023). This growth is inseparable from the contribution of millions of MSME actors operating in these sectors.

Furthermore, there is an indirect relationship between Islamic bank financing and economic growth mediated by the development of MSMEs. Improving the quality and quantity of financing to MSMEs will improve the profit performance of Islamic banks while encouraging the expansion of MSME businesses, which ultimately contributes to national economic growth (OJK, 2021).

Mudhārabah Financing Optimization Strategy

Based on the results of the analysis, there are several strategies that can be carried out to optimize the role of mudhārabah financing in the development of MSMEs. First, increasing Islamic financial literacy through massive and sustainable socialization and education programs for MSME actors. The program needs to be designed in an inclusive manner and uses language that is easily understood by different walks of life.

Second, simplifying the financing application procedure by utilizing digital technology. The development of an application-based financing platform that is integrated with the MSME business administration system can reduce transaction costs and increase the accessibility of sharia financing for MSME actors throughout Indonesia (Nugroho, 2017).

Third, strengthening the supporting ecosystem through the establishment of a special guarantee institution for mudhārabah and musyarabah financing, structured assistance for MSME businesses, and the development of a management information system that helps Islamic banks monitor the performance of their financed businesses more efficiently (Marliah, 2016).

Fourth, harmonization of regulations between OJK, Bank Indonesia, and the Ministry of Cooperatives and SMEs to create an ecosystem that supports the growth of profit-sharing-based financing. Policies that provide fiscal incentives for Islamic banks that allocate a portion of mudhārabah financing for MSMEs also need to be considered as a policy instrument that can encourage the transformation of the Islamic bank financing portfolio.

CONCLUSION

This study concludes that Islamic banking financing based on mudhārabah contracts has a significant influence on the development of MSMEs in Indonesia, with a determination coefficient (R^2) of 0.614 which shows the contribution of Islamic bank financing to the variation in MSME development of 61.4%. Each increase in Islamic bank financing by 1 unit encourages an increase in the number of MSMEs by 0.34 units.

Furthermore, the development of MSMEs has been proven to be positively and significantly correlated with national economic growth. With a regression coefficient of 3.34, the development of MSMEs is one of the important predictors of Indonesia's economic growth. This confirms the dual role of Islamic banking: as a profit-oriented financial institution as well as an economic development agent that supports the real sector.

However, the implementation of the mudhārabah contract still faces various challenges, including: (1) low sharia financial literacy among MSME actors; (2) complex financing application procedures; (3) high risk perception from banks; and (4) the lack of a strong supporting ecosystem such as special guarantee institutions. To overcome these challenges, synergistic efforts are needed between Islamic banks, the government, and MSME actors in the form of increasing financial literacy, simplifying regulations, innovating financing products, and strengthening the supporting ecosystem.

With the right policy support, technology-based service innovation, and capacity building for all stakeholders, mudhārabah-based sharia financing has the potential to be a key instrument in driving inclusive and sustainable economic growth in Indonesia. The next study is suggested to explore the mediation and moderation factors that affect the effectiveness of mudhārabah financing, as well as conduct a comparative analysis between different types of sharia financing contracts in the context of MSME development in various economic sectors.

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