



Loan Practices in Islamic Commercial Law: A Qualitative Analysis of Sharia Compliance in the Modern Business Sector

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Abstract

This study aims to explore lending and debt practices in Islamic commercial law within Indonesia's modern business sector, focusing on Micro, Small, and Medium Enterprises (MSMEs) and Islamic financial institutions. The research addresses the ongoing tension between the idealism of Sharia principles emphasizing fairness, transparency, and the prohibition of riba and the pragmatic realities of business financing. A descriptive qualitative approach with a case study design was applied. Data were collected through semi-structured interviews with MSME entrepreneurs and Islamic finance practitioners, supported by limited field observations due to incomplete access to some respondents. The findings reveal that the understanding of Sharia principles among MSME actors remains partial, often limited to the prohibition of interest, while practical lending is still dominated by conventional banks. Although several Islamic financing contracts, such as murabahah and qardul hasan, are applied, administrative fees and procedural complexity remain barriers to full Sharia adoption. Low Islamic financial literacy and limited product innovation also hinder broader engagement with Islamic financing. Nevertheless, participants noted that Sharia-based loans provide spiritual comfort and ethical reassurance compared to interest-bearing credit systems.

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This study contributes empirically to the literature on Islamic commercial law by highlighting both the socio-religious and psychological dimensions of Sharia-compliant lending practices. Theoretically, it reinforces the application of maqashid sharia in business ethics. Practically, it suggests the need for innovative, digital, and inclusive Islamic financing models. Further studies are encouraged to involve more respondents and sectors to strengthen comparative insights.

Keywords: *Islamic lending, Islamic Commercial Law, Micro Small and Medium Enterprises, Maqashid Syariah, Islamic Financial Literacy*

Introduction

The development of the modern business sector cannot be separated from financing needs (Utama et al., 2024). Economic globalization and digitalization have encouraged an increase in lending practices, both through formal financial institutions and digital financial platforms. This phenomenon occurs not only in developed countries but also in countries with Muslim majorities, including Indonesia, where debt practices often form the foundation for the sustainability of small businesses and large corporations alike. (Putri, 2021)

At the global level, (Bank, 2020) notes that more than 40% of micro, small, and medium enterprises (MSMEs) have limited access to formal financing, making them dependent on community-based lending mechanisms or financial technology. However, in the context of Muslim societies, this practice raises ethical and legal dilemmas, particularly regarding compliance with sharia principles.

At the national level, the Financial Services Authority (Keuangan, 2023) reported that the value of fintech-based lending exceeded IDR 19 trillion in 2023, reflecting a rapid transformation in financial behavior. Yet, many of these mechanisms still apply fixed interest rates, potentially involving elements of *riba*. Previous studies, such as those by (Nasada & Harmain, 2025) and (Nopendi & Utami, 2025), have found that financial institutions often continue to use conventional credit models that conflict with Islamic business ethics. Similarly, (Azis et al., 2025) revealed that digital lending schemes like TikTok PayLater may contain implicit usury elements, further questioning their Sharia legitimacy.

Figure 1. The Development of Fintech Lending in Indonesia



Despite increasing public awareness of Islamic finance, the practical implementation of Sharia-compliant lending remains limited. Many MSMEs prefer conventional loans due to easier access, faster approval, and fewer administrative requirements (Kurinci et al., 2025). Meanwhile, Islamic financial institutions still face challenges in offering innovative yet compliant products that can compete effectively (Aditiya et al., 2023). Previous research has extensively discussed this issue but often in normative and doctrinal terms, neglecting the lived experiences of business actors in adapting Islamic principles to real market conditions. This gap highlights the need for empirical studies that explore how Islamic lending principles are understood, practiced, and challenged in modern business contexts.

Accordingly, this study seeks to answer the following research questions:

(1) How are lending and debt practices implemented in Indonesia's modern business sector?

(2) To what extent do these practices comply with the principles of Islamic commercial law?

Theoretically, this study is grounded in the framework of *maqāṣid al-syarī'ah*, which emphasizes the preservation of faith (*ḥifẓ al-dīn*), life (*ḥifẓ al-nafs*), intellect (*ḥifẓ al-'aql*), wealth (*ḥifẓ al-māl*), and lineage (*ḥifẓ al-nasl*) (Suhaimi et al., 2023). Within the realm of Islamic commercial law, *maqāṣid al-syarī'ah* serves as a moral compass that ensures justice, transparency, and social welfare in economic transactions (Afifah et al., 2020). By applying this framework, the study aims to analyze lending practices not only from a legal perspective but also through the ethical and socio-religious dimensions that underpin Sharia compliance.

Method

This study employed a descriptive qualitative approach using a case study method to gain an in-depth understanding of lending and debt practices in the modern business sector and to assess their compliance with Islamic commercial law. The qualitative design was chosen because it emphasizes meaning, experience, and social processes rather than numerical data (Creswell & Poth, 2018)

The research was conducted in North Sumatra, Indonesia, focusing on Micro, Small, and Medium Enterprises (MSMEs) and Islamic financial institutions operating in the region. This location was chosen because it represents a rapidly developing business area with active Sharia-based financial institutions and strong MSME engagement in loan-based financing.

A total of eight informants participated in this study, consisting of six MSME entrepreneurs engaged in modern trade and two practitioners from Islamic financial institutions. Informants were selected through purposive sampling, targeting individuals with direct experience in borrowing or managing Islamic loans, and extended

through snowball sampling to reach additional respondents with relevant insights until data saturation was achieved (Guest et al., 2020)

Data were collected through semi-structured, in-depth interviews and limited participatory observations to capture both verbal narratives and observed practices. The interviews focused on experiences with financing systems, types of contracts used (murabahah, qardul hasan), perceptions of Sharia compliance, and challenges faced in implementation. Observations were conducted at Islamic cooperatives and microfinance institutions to validate the interview findings.

Data analysis followed the interactive model of Miles (Miles et al., 1994) involving three concurrent stages: data reduction, data display, and conclusion drawing/verification. Themes were categorized around contract types, levels of Sharia adherence, and regulatory or operational challenges, and later interpreted using the theoretical frameworks of maqashid sharia and Islamic financial literacy.

To ensure data validity and credibility, the study applied member checking by confirming the interpretations of key findings with several informants, and source triangulation by comparing interview data, observation notes, and relevant institutional documents. These steps enhanced the reliability and trustworthiness of the results (Nurfajriani et al., 2024).

This methodological framework provides a comprehensive yet focused understanding of Sharia-based lending practices in North Sumatra and supports the development of more effective and ethical Islamic financing models in Indonesia's modern business context..

Results and Discussion

Based on in-depth interviews conducted with two key participant groups Respondent A, an MSME owner operating in the modern trade sector, and Respondent B, a financing officer at an Islamic financial institution in North Sumatra, this study identified five main themes that describe the dynamics of lending practices within the framework of Islamic commercial law.

1. Understanding of Sharia Principles

Both respondents emphasized that the essence of lending in Islam lies in ta‘āwun (mutual assistance) and freedom from riba. Fairness and transparency are fundamental to prevent exploitation.

“Loans in Islam must be free from usury, based on willingness and not burdening either party.”

(Respondent A, MSME owner, interview, 2025)

“The principle of debt in Islam is mutual assistance, not seeking profit through interest—it must be free from riba, gharar, and maisir.”

(Respondent B, Islamic finance practitioner, interview, 2025)

2. Actual Lending Practices

Respondent A admitted that MSMEs still rely on conventional banks because the process is faster and more practical, although some have tried Islamic options such as murābaḥah and qard al-ḥasan. Respondent B confirmed that murābaḥah is the most common contract since it is easier to explain to clients.

3. Obstacles and Challenges

Both respondents highlighted several barriers: low Islamic financial literacy, limited innovative products, and administrative fees perceived as similar to interest.

“In conventional banks, there’s clearly interest... in Islamic banks it’s more appropriate, but sometimes the admin fees feel similar.”

(Respondent A, MSME owner, interview, 2024)

4. Social and Religious Impact

Islamic-based financing was perceived to provide spiritual peace and moral comfort, despite remaining financial burdens.

“Using Islamic loans makes me calmer, even if the payments are still heavy—it feels more blessed.”

(Respondent A, MSME owner, interview, 2024)

5. Expectations for an Ideal Sharia Loan Model

Both respondents envisioned a Sharia financing model that is simple, flexible, digital-based, transparent, and low-cost, while remaining supervised by the Sharia Supervisory Board.

Table 1. Summary of Main Research Findings

Main Theme	Narrative Findings	Representative Quotes
Understanding of Sharia	Loans must be free from <i>riba</i> , <i>gharar</i> , and <i>maisir</i> ; based on mutual help and fairness	“Loans must be free from usury...” (A); “Must be free from <i>riba</i> , <i>gharar</i> , <i>maisir</i> .” (B)
Actual Loan Practices	MSMEs mostly use conventional banks, though some apply <i>murabahah</i> and <i>qard al-ḥasan</i>	“I usually borrow from conventional banks, sometimes cooperatives.” (A)
Obstacles & Challenges	Low literacy, high administrative fees, lack of product innovation	“Admin fees feel like interest.” (A); “Main challenge: literacy and innovation.” (B)
Social & Religious Impact	Islamic loans provide spiritual comfort, ethical assurance, and transparency	“It feels more peaceful and transparent.” (A, B)
Ideal Model Expectations	Financing should be digital, inclusive, affordable, and supervised by DPS	“Sharia loans must be simple, fast, and digital.” (A); “Need product innovation.” (B)

Discussion

The findings highlight a persistent gap between the idealism of Islamic law and the pragmatism of modern business practices.

Theoretically, these results reinforce the *maqāṣid al-syarī‘ah* framework, particularly the dimensions of *hifz al-māl* (protection of wealth) and *‘adl* (justice). The principle of *hifz al-māl* is reflected in Sharia’s emphasis on fair contracts such as *murābaḥah* and *qard al-ḥasan*, which aim to protect both lender and borrower from financial harm and exploitation. Meanwhile, *‘adl* manifests in the ethical obligation to ensure that transactions are transparent and balanced—preventing unjust enrichment and moral hazard.

Although *murābaḥah* is widely applied, this study confirms critiques that its implementation sometimes mirrors conventional credit, especially when administrative costs are not transparently disclosed. This challenges the ideal of *‘adl*, suggesting the need for more stringent Sharia supervision and ethical awareness among practitioners. Conversely, *qard al-ḥasan* better represents *hifz al-māl*, as it promotes benevolent lending without profit motives, though its sustainability remains limited in commercial contexts.

Low levels of Islamic financial literacy among MSMEs hinder the internalization of these Sharia principles. This finding aligns with (Akhlaq & Asif, 2024) and (Sharia et al., 2025) who assert that literacy significantly influences the adoption of Sharia-compliant financial products. The results also support Tyler’s (2021) Legal Compliance Theory, emphasizing that compliance is not solely regulatory but also shaped by legitimacy, trust, and cultural adaptation.

From a socio-religious perspective, respondents’ expressions of spiritual peace illustrate the psychological dimension of *maqāṣid al-syarī‘ah*, particularly *hifz al-dīn* (protection of faith) and *hifz al-nafs* (protection of the self). Sharia-compliant financing thus serves not only as an economic mechanism but also as a means of moral and emotional assurance for Muslim entrepreneurs.

Table 2. Discussion of Research Findings in the Perspective of Theory and Previous Studies

Research Findings	Theoretical / Literature Connection	Comparison with Previous Studies	Implications
MSMEs prefer conventional methods due to easier access	Legal Compliance Theory (Tyler, 2021): compliance shaped by social legitimacy and practicality	Consistent with Nasada & Harmain (2025) on limited access to Sharia products	Need for policy reform to simplify Sharia loan procedures and accelerate approval processes
Dominance of <i>murābaḥah</i> contracts	<i>Murābaḥah</i> represents <i>hiḏz al-māl</i> but risks formalism if costs are opaque	In line with Hidayat & Anwar (2020) but adds that hidden fees distort <i>‘adl</i>	Regulators should strengthen transparency guidelines for Sharia contracts
Low Sharia financial literacy	Financial Literacy Theory (Akhlaq & Asif, 2024) literacy influences behavioral adoption	Consistent with (Sharia et al., 2025)	Necessitates national programs for MSME education in Sharia finance
Spiritual peace in Islamic loans	<i>Maqāṣid al-syarī‘ah</i> (Afifah et al., 2020). <i>hiḏz al-dīn</i> & <i>hiḏz al-nafs</i>	Adds psychological perspective beyond normative law	Highlights moral and emotional benefits of Sharia finance—relevant for marketing and public trust

Expectation for digital, inclusive Sharia models	Integration of literacy and innovation theory	Extends prior research by addressing Sharia digitalization gap	Encourages the development of fintech-based Sharia microloans and adaptive regulatory frameworks
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Implications

1. Sharia financial institutions need to innovate by developing digital-based, simple, and affordable loan products that are competitive with conventional ones. At the same time, improving Islamic financial literacy and strengthening regulatory transparency are essential to enhance public trust. This study also contributes theoretically by expanding the application of the maqāṣid al-syarī‘ah framework—not only emphasizing economic justice (‘adl) and wealth protection (hifz al-māl), but also highlighting the spiritual and psychological dimensions of Islamic financing that influence ethical business behavior.
2. Future Research Directions: Future studies should examine cross-sector variations—such as agriculture, manufacturing, and digital entrepreneurship—and explore digital consumer behavior and Sharia-based peer-to-peer (P2P) lending models emerging in Southeast Asia. These areas are promising for understanding how technology can support ethical and inclusive Sharia-compliant financing.ṣid al-syarī‘ah.

Conclusion

This study concludes that business financing among MSMEs in North Sumatra remains largely dominated by conventional financial institutions due to easier access and faster services. However, awareness and preference for Sharia-compliant financing are gradually

increasing, as reflected in the adoption of murābahah and qard al-ḥasan contracts. This transition demonstrates a shift from pragmatic borrowing behavior toward ethical financing choices aligned with Islamic commercial principles. The findings also reveal a persistent tension between the idealism of Islamic law—which emphasizes justice, transparency, and prohibition of riba—and the pragmatic realities of business operations that prioritize efficiency and accessibility. Theoretically, this research enriches the understanding of Islamic commercial law by integrating spiritual and psychological insights into the decision-making processes of business actors. Practically, it underscores the need for product innovation, regulatory support, and literacy development to strengthen the role of Islamic finance in promoting inclusive and sustainable business growth.

Research Limitation:

This study is limited to MSME actors in North Sumatra, so the findings cannot yet be generalized to other sectors or regions. Broader comparative studies involving diverse business contexts and digital financial ecosystems are necessary to validate and expand the applicability of these results.

Future Outlook:

Subsequent research can deepen the analysis of digital consumer behavior and explore emerging Sharia-based peer-to-peer lending ecosystems in Southeast Asia. Such studies would contribute to the development of an adaptive and ethical Islamic financial system responsive to technological transformation and global market dynamics.

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