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THE EFFECTIVENESS OF MSME FINANCING BY SHARIA BANKS IN IMPROVING THE WELFARE OF BUSINESS ACTORS

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Abstract

This study aims to evaluate how effective the financial support obtained from Islamic banks is to Micro, Small, and Medium Enterprises (MSMEs) in improving their standard of living. The background of this study focuses on the important role of MSMEs as the main driver in the country's economy, but still faces a number of challenges, such as difficulties in obtaining capital, lack of knowledge about technology, and limitations in reaching the market. This research uses qualitative descriptive research methods and a literature review approach based on several reference sources including journals, books, and other scientific works. The results of this study show that sharia-based financing, especially through contracts such as murabahah, musyarakah, and mudharabah, has a positive effect on increasing profits, business development, and the welfare of MSMEs. In addition, the sharia approach that prioritizes justice, openness, and blessings provides added value in strengthening the nation's economy. Sharia financing not only provides financial benefits, but also reflects the application of the principles of sharia maqashid which consists of the protection of religion, descent, intellect, soul, and property. Therefore, sharia financing has proven to be effective in supporting the sustainability of MSMEs. However, this success also depends heavily on the correlation between Islamic financial institutions, the government, and business people in creating an environment that supports the development of the Islamic economy in the real sector.

Key words: *Financing Effectiveness of MSMEs, Sharia Banks, Welfare of Business Actors*

Introduction

According to rudjito in a study by muhammad abid (2021: 35), micro, small and medium enterprises, often called msmes, are a form of business activities that contribute to the indonesian economy. This is because msmes can create a number of new jobs, help reduce the unemployment rate in indonesia, and increase state revenue through corporate taxes. In line with the explanation of msmes above, adi m. Kwartono in muhammad abid's research (2021: 35) defines msmes as economic activities that have a maximum net income of rp. 200,000,000, without taking into account business space such as land or buildings. Furthermore, msmes can also be interpreted as economic entities with an annual income of one billion rupiah and are owned by indonesian citizens. Dr. Ir. Pandapotan sitompul, mm, cic (2022: 1) describes msmes based on law no. 20 of 2008, where msmes are divided into three categories: micro enterprises, small enterprises, and medium enterprises.

In addition, msmes also include productive businesses owned by both individuals and business entities that qualify as micro businesses. Ach. Agil dzikrullah and uswatun chasanah (2024: 649) emphasized that msmes have a crucial role in the indonesian economy, contributing more than 60% to the gross domestic product (gdp) and absorbing more than 97% of the workforce. However, msmes face a number of challenges, as outlined by ach. Agil dzikrullah and uswatun chasanah (2024: 649) say that limited access to capital is one of the main problems faced by msmes. Many msme actors experience obstacles in obtaining financing from formal financial institutions due to strict requirements and high interest rates. Limitations in mastery of technology are also an important factor so that msmes can improve operational efficiency and competitiveness, but many msme actors are not able to master technology well, due to the lack of knowledge, skills, and resources to adopt this technology. In addition, difficulties in accessing the wider market occur due to limitations in distribution networks, marketing capabilities, and lack of understanding of changing market needs, which results in many msmes having difficulty reaching a wider market, both at the national and international levels.

The vital role of financial institutions in the development of the people's economy, especially in the context of the islamic economy, continues to increase in line with the emergence of opportunities and challenges in the digital financial era. When compared to nearby countries such as malaysia, the development of the islamic economy in indonesia needs to be spurred faster so that it can compete not only with conventional financial institutions but also with islamic financial institutions from other countries. Therefore, financial institutions are obliged to strengthen their capabilities in order to contribute more to accelerating the development of the islamic economy. Islamic financial institutions are one of the entities that have the potential to support indonesia's economic development, especially in the sharia-based financial sector. The presence of islamic financial institutions is a manifestation of the community's commitment to implementing sharia principles with the aim of contributing to welfare, justice, and honesty through a profit-sharing system (sudjana and rizkison, 2020). Based on efforts to ease the burden on the community, islamic financial institutions provide facilities that can be used by the community in the business field to create opportunities in pioneering micro, small, and medium enterprises (msmes).

Micro, small, and medium enterprises are the main pillars of national economic productivity and competitiveness. Therefore, the development of micro, small, and medium enterprises needs attention to improve the national economy and make it a priority for national economic development. Micro, small, and medium enterprises are expected to play an important role in expanding potential business channels, making important contributions to financial development, coordinating the expansion of payment channels, and increasing the seriousness and diversity of the community's economy. Given the importance of islamic financial institutions in helping micro, small, and medium enterprises overcome difficulties and increase economic strength, this study is focused on examining the strategic role of islamic financial institutions in realizing indonesia's economic development.

Against this background, the purpose of this study is to evaluate the effectiveness of msme funding by islamic financial institutions in improving the welfare of business actors. This research will analyze the extent to which islamic-based financing can answer the challenges faced by msmes, as well as its contribution to national economic development. The results of this research are expected to deepen our understanding of the strategic nature of islamic financial institutions, as well as become a foundation for the development of policies that better support the msme sector within the framework of an inclusive and sustainable islamic economy.

Methods

Sari (2021: 60-69) in this study, a qualitative descriptive analysis approach was applied in conjunction with the literature research method, which included the study of books, articles, official journals, notes, and other materials from sources relevant to the topic discussed by the researcher. Permana and sujana (2021: 1-9) the researcher used sources from books, journals, articles, internet sites, and official websites related to the research subject to collect information. In this context, researchers use secondary data, or additional information obtained from literature sources, to support and verify ideas presented in books, journals, articles, and official websites.

Results and Discussion

Aji and Mukri (2022: 1109) the islamic economic system is a system based on the quran and sunnah that aims to meet human needs in this world and the hereafter. It contains the principles of islamic economic philosophy, namely: allah is the owner of the universe, and man as a caliph is entrusted by allah to manage existing wealth. As caliphs, humans must cooperate and support each other to complete economic tasks in order to worship allah. In the context of the islamic economic system, a strong faith in allah is a key element of personal economic behavior, while at the same time realizing that all actions will ultimately be held accountable. Fathurohman (2022: 221) increased income refers to efforts or actions to increase the amount of money or financial resources received by individuals, organizations, or countries. The goal of this process is to achieve better economic well-being, financial stability, and improvements in the quality of life. Factors influencing increased income : Education and skills: by having a good education and skills, the job opportunities you get will be much better, work experience: having abundant and quality work experience can have a positive impact on increasing income, wages, or salaries, Geographic location: areas with high income levels can provide greater wage offers, and Industry and type of job: having the ability to choose a sector and type of job that suits your interests, competencies can contribute to higher earnings, Economic conditions: good economic growth can open up more job opportunities and income, Government policies: subsidies, tax incentives, and government welfare programs can support income increases.

Strategies to increase revenue: education and training: improving quality through formal education and skills training. In addition, investments: set aside funds for assets that can provide passive income such as property, stocks, or bonds. Innovation and technology: integrating the latest technology and innovation in the business to increase productivity and profitability. Market expansion: finding new markets for the product or service offered. Diversification of revenue sources: creating multiple revenue streams to reduce risk and improve financial stability, Operational efficiency: reduce operational costs to increase profit margins.

Impact increased revenue: Individuals: increased incomes for individuals can improve living standards, access to education, health services, and overall well-being. Organization: at the organizational level, an increase in revenue can mean expansion, innovation, as well as greater profits. National economy: higher incomes at the national level can have a positive impact on gdp, reduce poverty rates, and increase economic stability. Challenges in increasing revenue Unequal opportunity: not all individuals or regions have equal access to increasing revenue. Economic crisis: a recession or difficult economic situation can hinder income growth. Technological change: rapid technological developments can make some skills irrelevant. Global competition: competition from international markets can affect prices as well as profit margins. Practical examples of increased revenue Employees: taking additional courses with the goal of getting a promotion or looking for a higher-paying job. Entrepreneurial: launching a new product or service that the market likes. Investor: investing funds in investment instruments that offer higher returns. Revenue growth is a multifaceted and complex process, requiring the right strategy as well as a deep understanding of the factors that influence it. With the right approach, the achievement of increased income can be realized and have a significant positive impact on individuals and society.

Conclusion

This research reveals that the financial support provided by islamic banks to msmes has a significant impact on improving the welfare of entrepreneurs, both in economic, social, and spiritual aspects. The positive impact can be seen from the increase in revenue, business development, efficiency in operations, and improvement in the quality of life of msme actors. Islamic banks have proven to be effective solutions to various challenges faced by msmes, such as difficulties in accessing capital, low understanding of technology, and obstacles in expanding the market. By applying sharia principles through murabahah, musharakah, and mudharabah contracts, islamic financial institutions are able to provide fairer, more transparent, and empowering financing than traditional institutions.

The idea of sharia maqashid, which is the basis of the islamic economic system, namely the protection of religion, soul, intellect, descent, and property, has been applied in a financing scheme that not only focuses on profits, but also encourages the achievement of social justice and the welfare of the ummah. It provides the foundation for inclusive and sustainable economic development. However, the effectiveness of financing also depends on financial literacy support, business assistance, and government policies that support a sustainable sharia msme ecosystem. Therefore, collaboration between islamic financial institutions, entrepreneurs, and regulators is a key factor in the success of creating msmes that are independent, prosperous, and highly competitive.

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