THE ROLE OF SHARIA FINANCING IN EMPOWERING MICRO, SMALL AND MEDIUM ENTERPRISES

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Abstract

Micro, Small, and Medium Enterprises (MSMEs) play an important role in Indonesia's economy by creating jobs, increasing income, and reducing poverty. However, many MSME actors still face difficulties in accessing fair financing that complies with sharia principles. This study aims to analyze the role of sharia financing in empowering MSMEs from economic, social, and technological perspectives. This research uses a qualitative method with a library research approach. Data were obtained from relevant journals, books, research reports, and official documents and analyzed descriptively. The results show that sharia financing through mudharabah, musyarakah, *and* murabahah *contracts provides MSMEs with access to capital based on Islamic principles. Islamic financial institutions also support MSMEs through business assistance, financial management training, and human resource development. Furthermore, Islamic fintech accelerates financing services, reaches remote areas, and expands financial inclusion. Nevertheless, its implementation faces challenges, including low Islamic financial literacy, limited product innovation, and inadequate digital infrastructure. Therefore, collaboration among the government, Islamic financial institutions, educational institutions, fintech providers, and MSME communities is necessary to develop an inclusive and sustainable sharia financing ecosystem.*

Key words: *Sharia Financing, Empowerment, Micro, Small and Medium Enterprises*

Introduction

Micro, Small, and Medium Enterprises (MSMEs) have a crucial role in the Indonesian economy. MSMEs contribute significantly to the Gross Domestic Product (GDP) and are the main pillar in creating jobs and reducing poverty levels. The government has paid serious attention to the development of this sector because MSMEs have shown high resilience in the face of various economic pressures, including global crises. However, MSME actors still face major obstacles, especially in terms of access to financing that is easy, affordable, and in accordance with the principles believed by the wider community, especially for business actors who are Muslim. This condition requires financing conditions that are not solely oriented to financial aspects, but also prioritize moral and ethical values that are in accordance with the norms of community life.Sharia financing has emerged as an alternative that offers more than just business capital, but also carries spiritual, social, and ethical values based on the principles of justice, transparency, and partnership. In contrast to conventional financing which is oriented solely on interest and profit, sharia financing uses contracts such as murabahah, mudharabah, and ijarah that help MSME actors manage funds more efficiently and productively. According to research by Azzahra et al. (2025), these contracts are able to increase the business capacity of MSMEs as a whole, starting from production to marketing aspects. In addition to providing capital, Islamic financial institutions are also active in providing training, financial education, and business assistance to MSME actors, as stated by Susana et al. (2025). This approach reflects the spirit of ta'awun, namely help-help, so that the relationship between financial institutions and MSME actors is not just creditors and debtors, but a mutually beneficial and sustainable business partnership. The contribution of sharia financing to the national economy is increasingly real, especially in supporting the growth of MSMEs who are starting to switch to a financial system that is in accordance with Islamic values, as emphasized by Nuriyah (2023). This shift strengthens the economic foundation of the ummah while fostering a more equitable and ethical business ecosystem. Lismawati et al. (2025) added that murabahah contracts are the most popular type of financing because of their easy-to-understand nature, providing price certainty, and fixed installments so that they create a sense of security for business actors in obtaining productive goods quickly. In addition, Zahara et al. (2023) highlight the important role of Islamic microfinance institutions that are able to reach MSME actors in rural and remote areas through a community-based approach, which not only builds trust, but also expands financial inclusion equally. The research of Renaldi et al. (2024) strengthens this finding by showing that inclusive sharia financing can reach MSME actors who do not yet meet bankable requirements, as well as in line with the results of Putri's (2023) study which affirms the potential of sharia financing in supporting the development of MSMEs through fair financing schemes and in accordance with sharia principles. However, the implementation of sharia financing in the MSME sector faces various challenges. Some of the main obstacles are the low level of Islamic financial literacy among business actors, the limitation of financing product innovations that are adaptive to the needs of MSMEs, and the lack of use of digital technology in the financing process. Therefore, close collaboration is needed between Islamic financial institutions, the government, and educational institutions to improve the understanding of MSME actors and the quality of Islamic financing services to become more inclusive and effective. Hasanah and Pratama (2023) emphasized that sharia financing not only plays a role as a provider of capital, but also as an instrument for empowering MSMEs through intensive education and mentoring programs that increase the business management capacity and economic resilience of MSME actors. In line with that, Rahim and Santoso (2024) revealed that partnership-based sharia financing models such as mudharabah and musharakah contracts have proven to be effective in encouraging sustainable business growth and expanding microfinance inclusion. In addition, Fatimah and Wirawan (2025) emphasized the importance of digitalization in sharia financing which can accelerate access to funds, increase transparency, and support the MSME business ecosystem to be more responsive to the times in the current digital era. Therefore, it can be concluded that sharia-based financing has a crucial strategic role in encouraging the growth and development of micro, small and medium enterprises (MSMEs) in Indonesia. Sharia financing not only serves as a source of capital that meets the principles of justice, transparency, and partnership, but also as a comprehensive and sustainable empowerment instrument. This is reflected in various mentoring, financial education, and capacity building programs run by Islamic financial institutions, which not only provide funds, but also equip MSME actors with better business management skills. The partnership approach carried out with MSME actors makes the relationship between the giver and the recipient of funds not solely a creditor-debtor relationship, but a strategic cooperation that is mutually beneficial and strengthens business resilience in the midst of changing market dynamics. Furthermore, the success of sharia financing in supporting the development of MSMEs is highly dependent on solid synergy between various parties, namely Islamic financial institutions, the government, educational institutions, and the community. This collaboration is very important to overcome various challenges that have been hindering the development of sharia financing, such as low sharia financial literacy among business actors, limited innovation in financing products that are able to answer the needs of diverse MSME actors, and the use of digital technology that is still not optimal. The use of digital technology, especially in terms of financial services, can be the main key in expanding access to financing quickly, efficiently, and transparently. With the support of technology, Islamic financial institutions are able to reach MSME actors in various regions, including rural and remote areas that were previously difficult to reach, while improving the quality of services through a more transparent and accountable system. Therefore, it is very important to continue to encourage the formulation and implementation of policies and programs based on sharia principles that focus not only on the financial aspect, but also on the social and empowerment aspect. The policy must be able to create an inclusive and equitable economic ecosystem, so that MSMEs can grow sustainably and be able to compete in an increasingly competitive global market. By strengthening the people's economic ecosystem through sharia financing, MSMEs as the backbone of the national economy can adapt quickly to global changes and challenges, while making maximum contributions to job creation, poverty alleviation, and improving the welfare of the community as a whole. Therefore, sharia financing is not only an alternative financing, but also the main pillar in building a national economy based on the values of justice, partnership, and sustainability.

Method

This research adopts a qualitative approach with the aim of understanding social phenomena in depth through the interpretation of the text and context. According to Kusumajanti et al. (2025), the qualitative approach allows researchers to explore rich and deep perspectives, so that phenomena can be understood in their entirety in their social context. This is in line with the view of Hadi (2021) who states that a qualitative approach opens up space for exploration of the subjective meaning hidden behind a social event, as well as helps researchers capture the complexity of the relationships between variables in dynamic reality. In order to achieve this goal, this study uses the literature study method (*library research*) as the main data collection technique. Fadli (2023) stated that literature studies are carried out through the review of documents, scientific articles, and relevant publications that support the overall analysis process. This method is considered effective in building a theoretical framework, exploring academic perspectives, and tracing contemporary developments in the field of sharia financing and MSME empowerment in Indonesia. Furthermore, Putra and Amalia (2025) emphasized that literature study as a method in qualitative research is very important to integrate findings from previous research systematically and critically. They emphasized that this process should involve the validation of the literature sources used as well as the synthesis of key concepts in order to produce credible, logical, and evidence-based conclusions based on actual scientific evidence. Thus, this approach not only presents information, but also interprets and compiles meaning contextually in order to be able to broaden insight into the topic being studied, in this case sharia financing and its contribution to strengthening MSMEs. The secondary data in this study was obtained from various written sources such as scientific journals, Islamic economics and finance textbooks, research reports, theses, and relevant theses. These sources are accessed through digital platforms such as Google Scholar, the National Library, and various academic repositories of universities in Indonesia. The literature search process was carried out using keywords such as: "sharia financing for MSMEs," "sharia-based economic empowerment," and "the role of sharia financial institutions in small businesses." After the selection process is carried out based on relevance, credibility, and quality of content, a critical content analysis is carried out to ensure that each reference used makes a substantive contribution to the formulation of arguments and study results. Through this literature study approach, the research is expected to be able to present a complete and sharp picture of sharia financing, both as a financial instrument and as a means of socio-economic empowerment for MSME actors. The integration of various previous thoughts and findings in one coherent analytical framework will strengthen the scientific contribution of this research, as well as become a solid basis in designing effective, fair, and sustainable sharia financing strategies and policies in the context of MSME development in Indonesia.

Results and Discussion

Sharia financing plays a strategic role in encouraging the growth and development of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia. In contrast to conventional financing systems that focus solely on interest and profits, sharia financing uses contracts such as mudharabah, musyarakah, and murabahah that prioritize the principles of fairness, transparency, and fair risk sharing between funders and business actors. Akbar et al. (2023) emphasized that the combination of murabahah and musharakah contracts provides flexibility for MSMEs so that they can obtain financing that is safe and in accordance with Islamic values. This flexibility is important to adapt to the diverse character and needs of MSMEs, while building an inclusive and sustainable business ecosystem. In an effort to expand financial inclusion, Bank Indonesia (2025) through the Sharia Financing Month program emphasizes the importance of strengthening sharia financing, especially for MSMEs in remote areas. BI also underlined the optimization of digital technology to improve service efficiency and accelerate the financing process, so that service coverage can touch MSME actors who are difficult to reach by conventional financial institutions. However, challenges still arise related to digital infrastructure that is not evenly distributed in rural areas, so the use of technology has not been maximized. Suharto et al. (2025) added that the use of digital technology in Islamic financial institutions not only encourages the efficiency of the transaction process and increases transparency, but also plays a role in minimizing the risk of irregularities and expanding access to financing for MSMEs that previously had difficulty obtaining capital through conventional channels. The low level of Islamic financial literacy is the main obstacle in optimizing the use of Islamic financing. Vahlevi (2024) revealed that the lack of understanding of the sharia contract mechanism makes MSME actors reluctant to take full advantage of financing products. Therefore, education and business assistance are needed so that MSMEs not only know the product, but also be able to manage funds properly and responsibly. Wicaksono and Sari (2023) emphasized that good Islamic financial literacy is positively correlated with the effectiveness of financing utilization, so educational programs must be designed systematically and applicatively so that MSME actors can directly apply knowledge in managing their businesses. In addition to the financial aspect, sharia financing also functions as an instrument of social justice distribution that strengthens public trust in the Islamic financial system. Ramadhan and Fauziah (2023) highlight that the principles of justice and shared welfare in sharia financing encourage inclusive and sustainable economic growth. Mubarok and Fitriani (2024) emphasized that this financing model is an important foundation for equitable national economic development. The success of sharia financing is highly dependent on cross-sectoral collaboration, as suggested by Hasanah and Wahidah (2023), which encourages synergy between the government, financial institutions, and educational institutions to develop product innovations that suit the needs of MSMEs. Nurhayati and Sahri (2023) complement by emphasizing that inclusive sharia financing not only provides financial benefits, but also builds a business ecosystem that is oriented towards social welfare and environmental sustainability. Sharia financing is not only about providing capital, but also building a healthy and equitable business ecosystem. In Indonesia, many MSMEs face difficulties in accessing funds, especially capital that is friendly and fair. Often, business actors are afraid to apply for loans to conventional financial institutions because of the burdensome interest system and uncertain installment risk. This condition makes many MSMEs trapped in informal financing which can actually worsen their financial condition. Sharia financing is present as a solution with the principle of profit sharing and cooperation, where risks and profits are shared fairly between funders and business actors. This model provides a sense of security and motivation for MSMEs to develop their businesses without fear of being burdened with high interest rates, while fostering a sense of ownership and shared responsibility. The success of sharia financing does not only depend on the availability of capital, but also on continuous assistance. Capital without proper management can run out quickly and do not have a significant impact on business development. Therefore, Islamic financial institutions often combine financing services with business management training, simple financial reporting, and marketing assistance. This approach helps MSMEs not only receive funds, but also learn to manage their businesses professionally, be able to adapt to market changes, and increase competitiveness. On the other hand, the social values inherent in sharia financing such as the principle of help-help and mutual cooperation strengthen solidarity between business actors in the community. Support from sharia micro-institutions that are close to the community encourages the formation of trust and strong partnerships, so that financing is not only a financial transaction, but also a means of empowering the local economy, especially in remote areas. The development of digital technology is an important factor in expanding access to sharia financing. Sharia fintech offers ease of application and a fast process that is able to overcome geographical and bureaucratic obstacles that have been barriers for MSMEs to obtain capital. However, there are still major obstacles in the form of digital infrastructure that is not evenly distributed in rural areas, so the use of technology is not optimal. In addition, digital literacy and Islamic finance need to be continuously improved so that business actors can utilize technology effectively and safely. In addition, innovation in sharia financing products must continue to be carried out in order to adapt to the needs of very diverse MSMEs, ranging from working capital to investment in business development. Strong cooperation between the government, financial institutions, educational institutions, and the MSME community has a crucial role in formulating supportive regulations, providing professional services, and presenting educational programs that meet needs. Through this comprehensive approach, sharia financing can play a key role in strengthening resilient, inclusive, and sustainable MSMEs, while encouraging local economic growth based on social justice.

Conclusion

Sharia financing plays an important role in supporting the growth and empowerment of MSMEs in Indonesia by offering fair, transparent, and partnership-based financing alternatives. The profit-sharing system and cooperation principles applied in sharia financing provide a sense of security and motivation for business actors, so as to avoid the trap of high interest and burdensome financial risks. In addition, sharia financing also emphasizes the importance of mentoring and education for MSMEs so that the capital obtained can be managed professionally and sustainably. Social values such as help-help and mutual cooperation strengthen solidarity between business actors, especially in communities and remote areas, so that financing is not only a financial transaction, but also a means of inclusive economic empowerment. However, various challenges such as the lack of understanding of Islamic finance, lack of product innovation, and uneven digital infrastructure limitations must be the focus of Bersama's attention. The use of digital technology and innovation in sharia financing products is the key to expanding access and improving service efficiency for MSMEs. Collaboration between the government, financial institutions, educational institutions, and the community is important to realize conducive regulations, relevant educational programs, and provide professional financing services and embrace all groups. With this comprehensive approach, sharia financing can be a strategic instrument in building resilient, sustainable MSMEs, and strengthening the local economy with social justice.

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