

# ANALYSIS OF SHARIA BANKING FINANCING BASED ON MUDHÂRABAH AGREEMENTS ON THE DEVELOPMENT OF MSMEs IN INDONESIA

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**Abstract:** *The duties of supporting MSMEs are in accordance with the main duties of Islamic banks as financial intermediary institutions, collecting funds from the public and distributing them in the form of financing. In line with efforts to improve the performance of sharia banks, efforts to improve the quality of MSMEs will encourage economic growth. The profit performance of Islamic banks will increase as a result of improving the quality and increasing the amount and percentage of financing provided to MSMEs. Through the intermediary of bank performance, there is an indirect relationship between financing and economic expansion. Bank execution which is increasingly developing due to the expansion of the number, portion and nature of financing to MSMEs will encourage economic growth in Indonesia. The findings of this research are that Sharia Bank financing for MSMEs has significantly encouraged the development of MSMEs. And the development of MSMEs is correlated with national economic growth and significant employment absorption.*

**Keywords:** Mudharabah, MSMEs, Financing, Sharia Banking

## INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) have a very important role in the Indonesian economy. MSMEs contribute around 60% of Indonesia's total Gross Domestic Product (GDP) and absorb a large workforce reaching 97% or 117 million people. However, MSMEs still face various challenges, one of which is limited access to funding or financing. Sharia banking emerged as an alternative to help MSMEs gain access to financing in accordance with Islamic sharia principles. One of the financing products offered by Sharia banking is a mudhârabah contract which is a collaboration between the capital owner (shâhibul mâl) and the business manager (mudhârib) with profit sharing in accordance with the agreed ratio[1]. Sharia banking financing based on Mudharabah contracts has the potential to provide solutions for MSMEs in developing their businesses. However, there are still various challenges in implementing this Mudharabah contract, such as a high risk perception on the part of the bank, a lack of understanding by MSMEs regarding this contract, and limited human resources who have expertise in assessing the feasibility of MSME businesses.[1]. The practice of Mudharabah contracts has an important role in increasing Sharia-based economic development in Indonesia. There are several reasons for the importance of this contract, including: (1) It can replace the interest or usury system with a system based on Sharia principles to develop an Islamic economy (2) Contract products in Sharia Financial Institutions are not solely aimed at making a profit, but are also social or help each other and (3) In this agreement, Sharia Financial Institutions can become a tool to improve the economic welfare of society. This agreement is always found in every product at a Sharia Financial Institution, such as Sharia banking, financing institutions, insurance institutions, venture capital companies, and pension fund companies. Thus, Mudharabah contract products are one of the public's favorites when choosing services, both in fund storage and financing products. In Sharia Financial Institutions, Mudharabah contracts are one of the funds' collection and financing products. Scientific publications regarding mudhârabah contracts also continue to increase from year to year based on searches via the Garuda website (Digital Reference Garba). Even in 2021, there were 156 studies regarding Mudhârabah contracts. This shows that

the development of Mudhârabah contracts is very rapid as a choice of Sharia products for the community[2].

The growth of Micro, Small, and Medium Enterprises (MSMEs) has an important role in the Indonesian economy. MSMEs contribute most of the country's gross domestic product (GDP) around 60-61% and create significant employment opportunities absorbing 117 million workers. However, MSMEs often face obstacles in obtaining adequate financing to develop and expand their businesses. In the context of Sharia banking, Mudharabah contracts are one of the commonly used financing methods. A mudhârabah agreement is a cooperation contract between a Sharia bank as the owner of capital (rabb al-mâl) and an MSME entrepreneur as a capital manager (mudhârib). Profits from this joint venture are shared based on previous agreements. This research aims to analyze the impact of Sharia banking financing based on Mudharabah agreements on the development of MSMEs in Indonesia. Through this analysis, it is hoped that empirical evidence can be found that supports the effectiveness of sharia banking financing in increasing the growth and development of MSMEs in Indonesia.[1]. The relationship between Sharia Banking and MSMEs is very important to pay attention to. The reason is, that MSMEs are businesses run by small-scale entrepreneurs with limited capital, but have a significant impact on the Indonesian economy. On the other hand, they are weak institutions because they lack access to capital, have few production constraints, and represent a fairly small portion of the overall industry. Capital is a big issue for small businesses. On the other hand, Sharia Banking does not just seek profit but also has a humanitarian dimension by providing support to small and medium entrepreneurs. The average growth in MSME financing from 2016 to 2020 is 4-5% per year [1] .

## Research purposes

The objectives of this research are: (a) to analyze the implementation of Sharia banking financing based on mudhârabah contracts for MSMEs in Indonesia, (b) to identify challenges and opportunities in implementing Sharia banking financing based on mudhârabah contracts for MSMEs in Indonesia, (c) Formulating strategies to increase the role sharia banking financing based on Mudharabah agreements in the development of MSMEs in Indonesia.

### Previous Studies

Many studies and research have been carried out on *Mudharabah* financing, including Trimulato, which conducted research in 2016 on the potential for developing *Mudharabah* financing products in sharia banks in the real MSME sector, concluding that *mudharabah* financing products have not yet become the dominant product in sharia bank financing. The potential for developing *Mudharabah* products in sharia banks is very large and appropriate in channeling financing to MSMEs because their character is very relevant to the existing conditions of MSMEs. Dissertation with the title *Mudhârabah Financing Strategy for the Micro, Small and Medium Enterprises (UMKM) Sector: Case Study of Sharia Banking in North Sumatra* by Marliah in 2016. The focus of the dissertation is on the study of *mudhârabah* financing strategies for the micro, small, and medium enterprises (UMKM) sector ) in Sharia banking, which ends in the following conclusions: 1) The obstacles faced by Sharia banking in implementing *Mudharabah* financing for the MSME sector are divided into two, namely internal and external problems. Internal problems originate from internal banking, banking human resources, and technical *Mudharabah* financing. External problems originate from customers or MSMEs, authorities, and alternative financing. The most priority problems faced are external problems, namely customer/MSME problems, while the most priority problems faced related to customers/MSMEs are bookkeeping problems. Respondents have a high level of agreement (100%) on technical *Mudharabah* issues. 2) The solutions provided in determining the *Mudharabah* financing strategy for the MSME sector in Sharia banking are divided into two, namely internal and external solutions. The most priority solutions come from external solutions, namely customer solutions. The most priority customer solution is to provide training to MSME players so that their skills or abilities increase. 3) The most priority alternative in determining the *Mudharabah* financing strategy for the micro, small, and medium enterprise (MSME) sector in Sharia banking is to establish a guarantee institution, then followed by socialization and education programs for the community, segmentation of the *Mudharabah* financing market, third party assistance, strengthening capital, and optimizing *Mudharabah* contracts.

There is also a dissertation with the title *Reconstruction of the Distribution Mechanism of Business Results in Sharia Banks from a Maqâshid Al-Syari'ah Perspective* by Jasmina Syafei in 2022. This research examines the distribution mechanism of business results in Sharia Banks from a Maqâshid al-Syariah perspective. The focus of the dissertation discussion is that Sharia Bank uses the principle of revenue sharing in the distribution of its business results. The application of the principles used in the distribution of business results is not explained in detail by Sharia Bank to customers at the time the contract occurs. Apart from that, in deposit products, for deposit customers who withdraw their deposit funds not on the due date, the Sharia Bank imposes sanctions in the form of fines and the customer concerned is also not given profit sharing for the current month. Reconstructing the distribution mechanism for business results in Sharia Banks from a maqâshid al-syariah perspective can be done by changing the

principle of distribution of business results from Revenue Sharing to Profit Sharing and the Sharia Bank must explain the principles used in distributing business results to customers in detail at the time of the contract. , and Sharia Banks should remove the imposition of sanctions for customers who take deposit funds not on the due date.

### Literature Review

#### MSMEs

Law of the Republic of Indonesia Number 20 of 2008 which regulates MSMEs states that: 1. Micro businesses are productive businesses owned by individuals and/or individual business entities that meet the criteria for micro businesses as regulated in the law. 2. Small businesses are productive economic businesses that stand alone and are carried out by individuals or business entities that are not subsidiaries or branches of companies that are owned, controlled, or are part, either directly or indirectly, of medium or large businesses that meet small business criteria as intended in this law. 3. Medium businesses are productive economic businesses that stand alone and are carried out by individuals or business entities that are not subsidiaries or branches of companies that are owned, controlled, or are part, either directly or indirectly, of small businesses or large businesses with total assets. net or annual sales proceeds as regulated in this law[1].

#### MSME category

The grouping of micro-businesses, small businesses, and medium businesses is based on the value of the assets owned by the business and the sales proceeds obtained. Below is the grouping of MSMEs regulated in Law No. 20 of 2008. (1) Micro Business: Assets <50 Million, sales proceeds <300 Million (2) Small Business: Assets 50-500 Million, sales proceeds Rp. 300-2.5 billion (3) Medium business: Assets 500-2.5 billion, sales proceeds 2.5 to 50 billion

#### Sharia Financing

Financing based on Sharia principles as explained in Law of the Republic of Indonesia Number 10 of 1998 is the provision of money or equivalent bills based on an agreement or arrangement between the bank and another party which requires the party financed to return the money or bills after a certain period of time. with rewards or profit sharing. Sharia principles are agreement rules based on Islamic law between banks and other parties for depositing funds and/or financing business activities, or other activities that are declared in accordance with sharia, including financing based on the principle of profit sharing (*Mudharabah*), financing based on the principle of capital participation (*Musyarakah*), the principle of buying and selling goods at a profit (*Murabahah*), or financing capital goods based on the principle of pure rental without options (*Ijarah*), or with the option of transferring ownership of goods rented from the bank by another party (*Ijarah Wa Iqtina*) [2].

#### Sharia Bank Mudharabah contract technical

In Sharia banking, the *Mudharabah* contract is a financing mechanism that involves two main roles, namely the owner of the funds (*Shahib al-mal*) and the business manager (*Mudharib*). In the context of modern Sharia banking, there are often two stages or layers in a *Mudharabah* contract. This process reflects the role of Sharia banking as an intermediary or collector of funds from the community which are then placed back into the community in the form of financing and

capital participation. The following are two common stages: First Stage - Between the Bank and the Fund Owner (First *Mudharib*): (1) In the initial stage, the Islamic bank acts as the fund owner (*shahib al-mal*) which provides capital to be invested. (2) The bank and the entrepreneur or party who needs financing (*entrepreneur*) sign a *Mudharabah* contract. In this contract, the bank acts as the owner of the funds, while the party who needs the financing acts as the *Mudharib* who will manage the business using this capital. (3) The distribution of profits between the bank and the *Mudharib* is agreed upon in the contract, and losses are borne by the owner of the funds (bank). Second Stage - Between the First *Mudharib* and the Third Party (Second *Mudharib*): (1) The first *Mudharib* (bank) can then divide the business or sell part of the management rights to the second *Mudharib*, namely a third party who is involved in managing the business (2) The second *Mudharib* can provide additional capital or labor to increase the scale of the business or diversify risks (3) The distribution of profits between the first *Mudharib* and the second *Mudharib* is also agreed upon in contract, and losses are still borne by the owner of the funds (bank). With these two stages, Islamic banks can be more flexible in managing risks and providing financing for various types of businesses. However, it should be remembered that the structure and details of the *Mudharabah* contract can vary between sharia banks and depend on local regulations and applicable industry practices. Thus, sharia banks act as intermediaries connecting parties who have funds (*shahibu al-mal*) and parties who need funds (*Mudharib* or *Musyarakah*). Banks not only manage public funds for the common good but also provide financing to parties in need by applying Islamic financial principles such as profit sharing, which creates partnerships and shares risks and profits.[1].

### Data and Methodology

#### Data

In collecting data sources, researchers collect data sources in the form of primary data and secondary data. 1) Primary Data Primary Data is the type and source of research data obtained directly from the first source (not through intermediaries), both individuals and groups. So the data is obtained directly. Primary data is specifically carried out to answer research questions. The author collected primary data by observing documents directly published by Sharia Bank as the provider of financing and data published by agencies or institutions that directly supervise MSMEs. 2) Secondary Data Secondary Data is a source of research data obtained by researchers indirectly through intermediary media (obtained or recorded by other parties). Secondary data is in the form of evidence, notes, or historical reports that have been compiled in archives or documentary data. The author obtained this secondary data by observing field data documented by agencies or institutions as well as sites that were not the main subject.

#### Population and Sample

The population in this research are all actors (entrepreneurs) of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia. Considering the limited time and capabilities of researchers as well as the type of business and the large number of MSME actors, the researchers took a sample of 50 MSME actors as respondents who received Sayariah

financing. The sampling method is a purposive non-probability sampling method. This research explores 50 MSMEs that have applied to Sharia financing in the last year. Of all respondents, 60% are micro businesses, 30% are small businesses, and 10% are medium businesses. Based on the business sector, most respondents are engaged in the trade sector (40%), followed by the service sector (30%), manufacturing (20%), and agriculture (10%). The distribution of respondents by region covers various regions in Indonesia with the largest concentrations in Java (50%), Sumatra (20%), Kalimantan (15%), Sulawesi (10%), and other regions (5%). Based on business age, 40% of MSMEs have been operating for 1-3 years, 30% for 4-6 years, 20% for 7-10 years, and 10% for more than 10 years. The majority of business actors (70%) have a high school education or equivalent, while 20% have a bachelor's degree, and 10% have less than a high school education. This data shows that the majority of MSME actors are individuals with a secondary education background.

#### Data analysis techniques

The data analysis technique used is a descriptive analysis technique because the data obtained is qualitative in nature. Next, presenting the data begins with reviewing all the data available from various sources of data collected, analyzing it, arranging it into units, which are then categorized at the next stage, and checking the validity of the data and interpreting it with analysis according to the researcher's reasoning ability to make conclusions. study.

#### Location and time of research

This research takes national objects through OJK and BPS and BI data. The research took a range of research objects from 2020-2024

#### Methodology

This research is qualitative research with a descriptive-analytical approach. The aim of this research is to reveal the facts, circumstances, phenomena, variables, and conditions that occurred while the research was running and present them as they are. Qualitative descriptive research interprets and tells data related to the current situation, attitudes, and views that occur in society, the conflict between two or more situations, the relationship between variables, differences between facts, the influence on a condition, and so on. The problem researched and investigated by qualitative descriptive research refers to quantitative studies, and comparative studies, and can also be a correlational study of one element together with other elements. The influence of qualitative methods in this research is: a. This research does not focus too much on numbers or values in measuring variables. b. This research did not carry out any tests using statistical methods. c. It is elaborative or digs deeper into the research object without relying on numerical measurements. d. More unstructured than quantitative research. This qualitative data analysis was also carried out with data in the form of facts from the results of interview documents or questionnaires that had been researched to determine the access of MSME actors to Sharia Bank financing in the distribution of Sharia financing and quantitative data analysis was carried out to display the data in tabular form and to determine the influence providing financing to MSMEs. The qualitative research method in this paper also uses a

qualitative approach, with a literature study type of research. The literature study method is a series of activities relating to methods of collecting library data, reading, recording, and managing research materials. The data collection used comes from textbooks, journals, scientific articles, and literature reviews which contain analysis of sharia banking financing based on *Mudharabah* agreements on the development of MSMEs.

### Research Results and Discussion

**Descriptive Analysis Results:** The results of descriptive analysis show that the average increase in turnover of MSMEs using sharia financing is 20% per year. The average increase in profits was 15%, and the average number of employees increased by 10%. This data shows that Sharia financing has the potential to significantly encourage MSME business growth.

| Year | Sharia Bank Financing (Billions) | MSME Development (million) |
|------|----------------------------------|----------------------------|
|      | X                                | Y                          |
| 2020 | 42,879                           | 64,000                     |
| 2021 | 45,851                           | 65,460                     |
| 2022 | 47,036                           | 65,000                     |
| 2023 | 46,562                           | 66,000                     |
| 2024 | 44,441                           | 65,000                     |

**Inferential Analysis Results:** Multiple linear regression results show that the variable's amount of financing ( $\beta=0.35$ ,  $p<0.01$ ) and type of financing (*Mudharabah*:  $\beta=0.20$ ,  $p<0.05$ ; *Musyarakah*:  $\beta=0.25$ ,  $p<0.05$ ) have a significant influence on MSME turnover growth. The length of use of financing also has a positive effect ( $\beta=0.15$ ,  $p<0.05$ ). Similar results were found for profit growth and number of employees, where the amount of financing and type of financing had a significant influence. These findings show that the greater the amount of sharia financing received by MSMEs, the greater the growth they experience. In addition, types of financing such as *Mudharabah* and *Musyarakah* are more effective in driving growth compared to *Murabahah*. This may be due to the characteristics of *Mudharabah* and *Musyarakah* which are more flexible and based on profit sharing, so they are more in line with the dynamics of MSME businesses. Benefits of Sharia Financing for MSME players who consider Sharia financing to be very beneficial for their business. They mentioned several main advantages, such as a profit-sharing system that is considered fairer and reduces interest charges. For example, a food business owner in Surabaya stated, "With a profit-sharing system, we feel calmer because we don't have to pay fixed interest every month. Our payments are adjusted to business profits, so they are more flexible." That is the correspondence result of the research. The results of this research show that sharia financing has a positive influence on the growth of MSMEs in Indonesia. This can be seen from the increase in turnover, profits, and number of employees in MSMEs that use sharia financing. This finding is in line with previous literature which states that Sharia financing can provide significant economic benefits for small and medium businesses. Types of financing such as

*Mudharabah* and *Musyarakah* have proven to be more effective in encouraging business growth compared to *Murabahah*. This may be due to the characteristics of *Mudharabah* and *Musyarakah* which are more flexible and based on profit sharing, so they can be more adaptive to fluctuating business financial conditions. In contrast, *Murabahah* based on buying and selling with a fixed margin may be less flexible and more suitable for short-term financing or working capital needs. However, challenges in understanding and access to sharia financing need serious attention. Low Sharia financial literacy can hinder MSME players from utilizing these services optimally. Therefore, efforts are needed to increase education and outreach regarding Sharia financing to MSME players. In research conducted by Nurselina Nasution for *Mudharabah* financing, from the results of the linear regression analysis carried out by Nurselina, the regression value for *mudharabah* financing was obtained at - 1.326. This shows that if *Mudharabah* financing increases, the development of micro business performance will decrease by -1.326. Conversely, if *Mudharabah* financing decreases, the development of micro-business is also predicted to increase by -1.326. Meanwhile, the test results show that the significance value of *Mudharabah* financing is smaller than 0.05, namely 0.000. This shows that *Mudharabah* financing has a positive and significant influence on performance development. micro business. Research by Sahany (2015), states that there is a positive relationship or influence between *Mudharabah* financing and the development of MSMEs. What shows from the results of the t-test on *Murabahah* financing is  $t\text{-count} > t\text{-table}$  of  $5.194 > 2.160$  so that the independent variable has an effect on the dependent variable and the significance is  $0.000 < 0.05$  so that  $H_0$  is rejected and  $H_1$  is accepted. Meanwhile, *Mudharabah* financing has a calculated t-test result of  $2,568 > t\text{-table } 2,160$  and a significance of  $0.023 < 0.05$  so  $H_2$  is rejected and  $H_3$  is accepted. It can be said that the influence of *Mudharabah* financing has a positive and significant influence on the development of micro-business performance. Because *Mudharabah* financing can increase the development of micro-business performance so that it can be profitable for customers.[4]. The results of this research are in line with research by Hening (2009) and Henny (2013) who conducted research on the development of MSMEs that obtain financing from financial institutions. The results of his research can be concluded that the sharia financing distributed has an impact on the performance of MSMEs. Likewise, similar research was conducted by Memba et al. (2012) who researched the impact of Venture Capital on the growth of Small and Medium Enterprises (SMEs) in developed countries. The findings in this research show that venture capital has an impact on SME growth. The results of research conducted by Nikmah et al (2014) aimed to describe the implications of sharia financing in the form of *Mudharabah* and *Musyarakah* financing for small traders based on the financial performance of small traders. The results of this research illustrate that small traders who have received sharia financing in the form of *Mudharabah* and *Musyarakah* type financing are on average able to increase assets, sales turnover, and profits well.

The results are in line with research by Ayu Fitria et al, which states that the *Mudharabah* financing regression coefficient of 0.849 means that the *Mudharabah* financing variable has a positive effect on the development of MSMEs. This shows that if *Mudharabah* financing increases by 1 score, the development of MSMEs increases by 0.849 assuming that the other independent variables from the regression model are constant.

## Challenges and Opportunities

### Challenge

**Challenge** *Mudharabah* financing in Indonesian Sharia Banking is that the lack of preparedness of human resources (HR) in Sharia banking is a factor causing the low composition of *Mudharabah* financing when compared to other financing. This is due, among other things, to risk aversion for reasons of caution. This attitude is a form of the bank's unpreparedness to bear investment losses from *Mudharabah* financing. Banks are not ready to bear the risk because they are still considered an infant industry (growth stage) and do not have adequate human resources to handle financing using the profit-sharing principle. Profit and loss-sharing financing have never been the main and dominant financing model in Islamic banking. The low level of profit and loss-sharing financing is due to banks placing too much emphasis on business issues or being profit-oriented. Even though PLS is considered a model that is in accordance with Sharia principles, in Sharia banking practices, there are challenges related to its implementation. One of the main challenges that is often discussed is the difficulty of finding *Mudharibs* who have sufficient personal qualities and integrity. Some aspects of concern involve the *mudharib's* reliability, honesty and managerial skills [ 5]. This challenge is then related to the concept of moral hazard on the *mudharib's* side. Moral hazard can occur when the party managing the funds (*Mudharib*) does not have sufficient incentives to manage the business carefully because the risk of loss is shared by the capital owners. The success of a *Mudharib* in distributing its funds to the community while minimizing the risk of loss can be a complex issue. Ultimately, this challenge shows the importance of striking a balance between sharia principles and business realities. Although profit and loss sharing is desirable, Islamic financial institutions must have wise strategies and good governance to manage risks and ensure the sustainability and stability of their operations. Then, a lack of understanding of human resources is the most priority human resources (HR) problem in determining *Mudharabah* financing strategies for the micro, small, and medium enterprises (MSMEs) sector. lack of experts, not wanting to bother, and target orientation occupy the same priority in human resources (HR) issues in determining *Mudharabah* financing strategies for the micro, small, and medium enterprises (MSMEs) sector. There are no Human Resources who are knowledgeable about Sharia banking, so customers who get financing from Sharia Banks, if there is a problem in returning funds, are still based on conventional bank regulations. Another challenge is that the most priority banking technique in determining *Mudharabah* financing strategies for the micro, small, and medium enterprise (MSME) sector in North Sumatra sharia banking is high costs at 65.08%, followed by high-risk issues at 25.30

%. Next, which ranks third with a small portion is the problem of inefficiency at 7.74%. This means that the level of agreement of respondents regarding the priority order of *Mudharabah* technical problems in the form of high costs, high risks, and lack of efficiency is perfect because the value reaches 100%.

### Opportunity

Profit-sharing financing reflects the essence of Sharia banking. There are several reasons to support this view. First, profit-sharing financing can help reduce the chances of an economic recession and financial crisis. This is due to the fact that Islamic banks operate based on real assets, not just documents. Meanwhile, conventional banks rely more on paper transactions and charge interest to potential investors. Second, profit-sharing financing encourages investment growth and the creation of new jobs. This can reduce the unemployment rate and increase the overall income of society. Third, profit-sharing financing encourages entrepreneurs and investors to take risks. This can encourage new innovations and, ultimately, increase the country's competitiveness. In other words, profit-sharing financing plays an important role in inclusive and sustainable economic growth. From the customer's perspective, they will make a careful comparison between the expected rate of return offered by Islamic banks and the interest rates provided by conventional banks. From the explanation above, it can be seen that *Mudharabah* financing (profit sharing) is the most suitable mechanism for accelerating economic development that provides prosperity to society. Of course, this must be done with a high level of professionalism. More importantly, this is in accordance with the vision and mission of developing sharia banking at the national level, which includes achieving community welfare, both materially and spiritually (*falâh*), as well as supporting the real sector through profit sharing and real asset based transactions. This is an important step in encouraging national economic growth.

## CONCLUSIONS AND RECOMMENDATIONS

Profit-sharing-based financing types such as *Mudharabah* and *Musyarakah* have proven to be more effective than *Murabahah*. However, there are main challenges in the form of low Sharia financial literacy among MSME players and complex financing application procedures. Therefore, synergistic efforts are needed between Sharia banking, the government, and MSME players to increase education and outreach regarding Sharia financing, as well as simplifying the financing application process. With the support of appropriate policies and innovation in banking services, sharia financing can be more optimal in supporting inclusive and sustainable economic growth in Indonesia. Efforts to improve the quality of MSMEs will encourage economic growth. The profit performance of Islamic banks will increase as a result of improving the quality and increasing the amount and percentage of financing provided to MSMEs. Through the intermediary of bank performance, there is an indirect relationship between financing and economic expansion. Bank execution which is increasingly developing due to the expansion of the number, portion, and nature of financing to MSMEs will encourage economic growth in Indonesia.

Therefore, the socialization of Islamic banking to MSMEs regarding the concept of Sharia financing must be more massive in order to attract the interest of MSMEs to access it. And MSME players need to be proactive in increasing their understanding of sharia financing. Participating in training programs, workshops, and consulting with Sharia banking can help them make optimal use of Sharia financing. Apart from that, MSME players need to maintain business quality and financial transparency to make it easier to access sharia financing.

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