



# Legal Review Of The Effectiveness Of Islamic Banking Financing On Small And Medium Enterprises In Indonesia

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Article	Abstract
<p><b>Keywords</b> Effectiveness, Islamic Banking, SME Financing</p> <p><b>Article History</b> Received: 27/08/2025; Reviewed: 03/09/2025; Accepted: 10/09/2025; Published: 12/09/2025;</p>	<p><i>This study analyzes the effectiveness of financing provided by Islamic banks for the development of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia. MSMEs play a strategic role in the national economy by employing more than 97% of the workforce and contributing over 60% of the Gross Domestic Product (GDP). However, they continue to face obstacles in accessing financing from conventional institutions, including limited collateral and low financial literacy. In this context, Islamic banking offers an alternative system based on fairness, partnership, and the prohibition of usury, with financing instruments such as murabahah, mudharabah, and musyarakah. This study focuses on two main issues: the characteristics of Islamic banking contracts and financing schemes tailored to the needs of MSMEs, and the extent to which Islamic financing effectively enhances their capacity, turnover, and sustainability. Using a descriptive qualitative method through literature review and interviews, the findings show that Islamic financing contributes positively to MSME growth, yet its implementation is constrained by low literacy, limited accessibility, and conservative practices within financial institutions. Therefore, strengthening regulations, creating adaptive products, and integrating financing with education and business mentoring are essential. In conclusion, Islamic banking financing can significantly empower MSMEs, but its success depends on consistent legal frameworks, innovative product design, and improved financial literacy, making Islamic finance a more inclusive and sustainable instrument for</i></p>

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## INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a very strategic role in Indonesia's national economic structure. By absorbing more than 97% of the workforce and contributing significantly to the Gross Domestic Product (GDP), MSMEs are the backbone of the economy and are irreplaceable. However, this enormous potential has not been accompanied by adequate financing support from the formal financial sector.<sup>1</sup> Classic problems such as limited collateral, low financial literacy, and high business risk remain major obstacles that make it difficult for MSME players to access conventional banking services. This condition creates a gap between the real need for financing and the ability of the formal financial system to provide inclusive access to the micro and small business sector.<sup>2</sup> In this context, Islamic banking emerges as a promising alternative, offering a financing system based on the values of fairness, transparency, and *profit and loss sharing*. Unlike conventional financial institutions that rely on interest rates and physical collateral, Islamic banks offer a more flexible approach that is tailored to the characteristics of MSMEs through schemes such as *murabahah* (sale and purchase with profit margin), *mudharabah* (capital and labor cooperation), and *musyarakah* (business partnership).<sup>3</sup> These schemes are considered more suitable for MSME players who are not yet bankable but have strong business potential, mainly because they emphasize the principles of partnership and risk sharing<sup>4</sup>.

The growth of Islamic banking in Indonesia itself shows a positive trend over time. Data from the Financial Services Authority (OJK) shows a significant increase in terms of assets, number of customers, and service network coverage. This indicates that the Islamic financial system is beginning to gain acceptance in society. However, the effectiveness of Islamic financing in strengthening MSMEs still leaves a number of issues. The fundamental question that arises is to what extent such financing can increase the business capacity, income, and sustainability of MSMEs in the long term. Many MSME players who have obtained Islamic

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<sup>1</sup> Tambunan, Tulus. *Micro, Small, and Medium Enterprises in Indonesia: Important Issues* (Jakarta: LP3ES, 2019), p. 45.

<sup>2</sup> Antonio, Muhammad Syafii. *Islamic Banking: From Theory to Practice* (Jakarta: Gema Insani, 2011), p. 67.

<sup>3</sup> Hosen, Nadrattuzaman. "Access to MSME Financing and the Role of Islamic Financial Institutions," *Al-Iqtishad Journal*, Vol. 8, No. 2 (2016): 231–240.

<sup>4</sup> Hartanto, S., Suparyanto, T., & Azwar. (2023). Islamic finance practices in Micro, Small, and Medium Enterprises in Indonesia: A systematic literature review. *Millah: Journal of Religious Studies*, 22(2), 435–464. <https://doi.org/10.20885/millah.vol22.iss2.art6>

financing have actually experienced difficulties in managing their businesses due to a lack of assistance and understanding of the basic concepts of Islamic finance<sup>5</sup>. Furthermore, implementation challenges also remain prominent. Low Islamic finance literacy among MSME players means that Islamic financing instruments are not being utilized optimally.<sup>6</sup> On the other hand, the limited range of products specifically designed for MSME needs means that not all business sectors can be adequately served. In addition, from a regulatory perspective, there are still legal loopholes in the integration between Islamic banking regulations and MSME financing policies, which cause inconsistencies in the implementation of financing programs. Therefore, a comprehensive juridical approach is needed to unravel structural and normative issues in sharia-based MSME financing. Policy synchronization between the OJK, the Ministry of Cooperatives and SMEs, and sharia banking is a key prerequisite for creating a financing system that is not only fair and inclusive, but also sustainable<sup>7</sup>.

Based on this background, this study aims to examine the effectiveness of Islamic banking financing for MSMEs in Indonesia. The main focus of the study is on the form of financing, the benefits felt by business actors, and the obstacles in the implementation of sharia financing for MSMEs. The urgency of this study lies in the gap between the great potential of MSMEs as drivers of the national economy and their limited access to sharia financing, which ideally should be more fair, inclusive, and in accordance with Islamic law principles<sup>8</sup>. The lack of Islamic financial literacy, weak supervision of contract implementation, and the lack of synchronization of existing regulations make a legal evaluation of the effectiveness of Islamic financing very important. Thus, it is hoped that this research can contribute to the development of more inclusive Islamic financing policies that have a direct impact on strengthening the people's economy<sup>9</sup>.

## METHOD

This study uses a normative legal method, which is an approach that examines law as a norm in the applicable legal system. This method is used to examine the effectiveness of Islamic banking financing for MSMEs through an analysis of the legal provisions governing Islamic banking and MSME financing policies. This approach is considered relevant because the object of the study is directly related to the legal system, Islamic financing principles, and technical regulations established by financial authorities in Indonesia, such as the Financial Services Authority (OJK) and Bank Indonesia.

The type of data used in this study is secondary data, obtained from primary, secondary, and tertiary legal materials. Primary legal materials include Law No. 21 of 2008 concerning Sharia Banking, Law No. 20 of 2008 concerning MSMEs, and

<sup>5</sup> Lesmana, M. B., Octaviany, M., & Sandi, A. (2023). Examining the impact of Murabahah financing at BMT Berkah Madani on development of Micro, Small and Medium Enterprises (MSMEs). *Al-Mashrafayah: Journal of Economics, Finance, and Islamic Banking*, 8(2). <https://doi.org/10.24252/al-mashrafayah.v8i2.47868>

<sup>6</sup> Mulyana, Agus. "Analysis of the Effectiveness of Islamic Financing on MSME Development," *Journal of Islamic Economics*, Vol. 5, No. 1 (2020): 15–28.

<sup>7</sup> Rizvi, S. A. R., Narayan, P. K., Sakti, A., & Syarifuddin, F. (2020). Role of Islamic banks in Indonesian banking industry: An empirical exploration. *Pacific-Basin Finance Journal*, 62, Article 101117. <https://doi.org/10.1016/j.pacfin.2019.02.002>

<sup>8</sup> Riza, A., & Kamal, Z. (n.d.). The effectiveness of murabahah financing in poverty alleviation in Aceh. *Scientific Journal of Islamic Economics and Business Students*. <https://doi.org/10.22373/jimebis.v2i2.183>

<sup>9</sup> Daulay, P., & Basir, G. (n.d.). Analysis of the effectiveness of murabahah financing in the growth of MSMEs at BMT Al -Hijrah Bukittinggi. *Journal of Economics and Business*.

OJK regulations such as POJK No. 17/POJK.03/2021 concerning the Implementation of Business Activities Based on Sharia Principles by Sharia Commercial Banks. al secondary legal materials include scientific journals, legal articles, Islamic banking textbooks, and annual reports of financial institutions. Meanwhile, tertiary legal materials include legal dictionaries and Islamic economic encyclopedias to complement the analysis.<sup>10</sup>

Data collection techniques were carried out through *documentary study*, namely by tracing, selecting, and analyzing relevant laws and regulations, fiscal policies, and academic publications. Data analysis was conducted using normative qualitative methods, namely by describing the content of legal regulations and comparing them with Islamic financing practices for MSMEs, to then draw argumentative conclusions based on legal prescriptions.<sup>11</sup>

This normative approach allows researchers to assess the consistency between regulations, identify normative obstacles, and evaluate the suitability of legal instruments to the needs of MSME actors. Thus, the results of this study are expected to contribute to the development of sharia financing policies that are more accommodating to the micro and small business sector in Indonesia.

## RESULTS AND DISCUSSION

### A. Characteristics of Sharia Financing in Supporting MSMEs

In a legal normative approach, the characteristics of Islamic financing for MSMEs can be examined through an analysis of the legal norms that form the basis for Islamic banking operations in Indonesia. Based on the provisions of Law Number 21 of 2008 concerning Sharia Banking, sharia financing must be carried out based on sharia principles that include fairness, partnership, transparency, and business ethics. This makes sharia financing conceptually and normatively different from conventional banking.<sup>12</sup>

In general, Islamic banking does not apply an interest (*riba*) system as in conventional banks, but instead uses contract schemes that reflect a partnership or sale and purchase relationship that is valid under Islamic law. Among the most commonly used contracts in MSME financing are *murabahah* (sale and purchase with a profit margin), *mudharabah* (cooperation between fund owners and business managers), and *musyarakah* (joint capital partnership). These contracts have a legal basis not only in Islamic law, but are also accommodated in OJK regulations such as POJK No. 17/POJK.03/2021, which provides technical operational guidelines for Islamic financing to the productive sector, including MSMEs<sup>13</sup>.

The *mudharabah* contract is one of the financing forms that best reflects the spirit of empowering MSMEs, as it allows business actors who do not have collateral or guarantees to still obtain access to financing.<sup>14</sup> In this contract, risks and profits are shared proportionally according to the

<sup>10</sup> Soekanto, Soerjono and Mamudji, Sri. (2011). *Normative Legal Research: A Brief Review*. Jakarta: Rajawali Pers, p. 13.

<sup>11</sup> Marzuki, Peter Mahmud. (2017). *Legal Research*. Jakarta: Kencana, pp. 133–135.

<sup>12</sup> Antonio, Muhammad Syafii. *Islamic Banking: From Theory to Practice* (Jakarta: Gema Insani, 2011), p. 96.

<sup>13</sup> Ritonga, R. U., Sugianto, S., & Anggraini, T. (n.d.). The effect of multipurpose *Murabahah* financing on the development of Micro, Small and Medium Enterprises. *Journal of Business Management*. <https://doi.org/10.33096/jmb.v1i1i2.858>

<sup>14</sup> Ascarya. *Islamic Banking Contracts and Products* (Jakarta: Bank Indonesia, 2007), pp. 53–54.

agreement (nisbah), so that the bank and the customer are in an equal partnership position. However, in normative practice and financial institution policy, there is a tendency for Islamic banks to use murabahah contracts more often because they are considered safer and more certain in terms of fund repayment.<sup>15</sup> This shows that there is a gap between the ideal principles of Islamic banking law and its implementation in practice, which can be analyzed further in the framework of legal and policy evaluation.

Islamic financing also emphasizes Islamic business ethics, which prioritize blessings, business sustainability, and the social benefits of economic activities. This differs from the profit-only orientation that is characteristic of conventional banking. By placing spiritual values as part of the basic principles of financing, Islamic banking is directed to be more selective in channeling funds to sectors that have added value, as well as ensuring that the businesses being financed are in accordance with halal principles and do not conflict with Islamic law<sup>16</sup>.

From a normative perspective, financing models such as musyarakah and mudharabah also provide ample opportunities for MSMEs due to their participatory nature and lack of requirement for physical collateral, as is common in conventional banks. This is in line with the principle of distributive justice, which is also emphasized in Islamic economic law. However, obstacles remain because not all technical regulations and operational practices of Islamic banking are currently able to accommodate the actual conditions of MSME actors, especially those classified as ultra-micro and informal<sup>17</sup>.

Thus, the characteristics of Islamic financing for MSMEs have been normatively designed to be an inclusive and equitable financial system. However, its effectiveness is highly dependent on the consistency of legal norms, the readiness of supporting regulations, and the ability of Islamic banking to develop flexible financing products that meet the real needs of MSMEs. Therefore, periodic legal evaluations are needed to ensure that regulations governing the Islamic financing system are truly capable of responding to the challenges and needs of small and medium-sized businesses in Indonesia<sup>18</sup>.

## **B. The Effectiveness of Islamic Financing on SME Development**

The most dominant form of Islamic financing applied in supporting the MSME sector is murabahah financing, which is a sale and purchase scheme with a profit margin agreed upon at the outset. In Islamic banking practice, murabahah financing is used to finance the working capital and investment needs of MSMEs, especially for the purchase of goods or production equipment. This scheme is in high demand by banks because it offers certainty in terms of repayment amounts and is considered safer than other contracts such as mudharabah or musyarakah, which carry profit-sharing risks.<sup>19</sup>

From a legal perspective, murabahah financing is legitimized by the

<sup>15</sup> Karim, Adiwarman A. *Islamic Banks: Fiqh and Financial Analysis* (Jakarta: RajaGrafindo Persada, 2014), p. 231.

<sup>16</sup> Ahmadan, B., Laksono, A., & Hasibuan, R. R. A. (n.d.). The effect of Islamic financing on the growth of MSMEs in Indonesia. *Journal of Islamic Economics and Finance*. <https://doi.org/10.59841/jureksi.v3i3.2959>

<sup>17</sup> Fadhilah, S. A., Anggraini, T., & Nasution, J. (2025). Murabahah working capital and investment financing in increasing business income. *Academia Open*, 10(2). <https://doi.org/10.21070/acopen.10.2025.11641>

<sup>18</sup> Judijanto, L., & Mu'min, H. (n.d.). The effect of Islamic financing on the growth of Micro, Small and Medium Enterprises in Indonesia. *West Science Islamic Studies*. <https://doi.org/10.58812/wsiss.v2i04.1349>

<sup>19</sup> Antonio, Muhammad Syafi'i. (2011). *Islamic Banking: From Theory to Practice*. Jakarta: Gema Insani, pp. 89–91.

Indonesian Ulema Council's National Sharia Board (DSN-MUI) Fatwa Number 04/DSN-MUI/IV/2000, which stipulates that murabahah is a sale and purchase transaction between a bank and a customer, where the purchase price and profit margin are determined at the outset and do not change during the installment period. This fatwa is the main reference in the application of murabahah financing and has been used as a basis by regulators, including POJK Number 17/POJK.03/2021 concerning the Implementation of Business Activities Based on Sharia Principles.<sup>20</sup>

In terms of financing MSMEs, the effectiveness of murabahah as a financing instrument should be examined more critically. Although this contract is normatively justified, in terms of implementation, there are often deviations from the principle of transparent buying and selling. In practice, many Islamic banks only finance cash to customers and then package it as fictitious murabahah, which resembles an interest-bearing credit scheme. This contradicts the sharia principle that requires the bank to own the goods first before selling them to customers.<sup>21</sup>

Furthermore, murabahah contracts are essentially fixed margin contracts, meaning that all business risks are borne by MSME actors as debtors. In fact, the main spirit of Islamic financing is *risk sharing*, not risk transfer. Thus, murabahah financing that is too dominant and not accompanied by a participatory approach, such as in mudharabah or musyarakah contracts, tends to make MSMEs structurally vulnerable, especially when facing market fluctuations or production delays.<sup>22</sup>

However, it cannot be denied that murabahah financing still has strategic value for MSME development, especially in terms of accessibility. Compared to conventional schemes that require high collateral, murabahah in Islamic banks is more flexible and accessible to businesses that do not have large productive assets. A study conducted by Rini Handayani shows that most MSME players experienced a 20-40% increase in turnover after obtaining Islamic financing, particularly murabahah for the trade and food and beverage sectors. This shows that with simplified procedures and business coaching support, murabahah can contribute significantly to increasing the productivity of MSMEs<sup>23</sup>.

Using a normative legal method, it can be concluded that the effectiveness of murabahah financing for MSMEs is greatly influenced by the extent to which its implementation complies with Islamic legal principles as contained in regulations and fatwas. As long as the contract is carried out in accordance with the provisions and is not misused as a form of conventional credit camouflage, murabahah has the potential to be fair, transparent financing that provides significant progress for MSMEs. However, to ensure long-term effectiveness, it is necessary to strengthen technical regulations and sharia supervision so that the implementation of murabahah is truly in accordance with the principles and objectives of Islamic economic law<sup>24</sup>.

<sup>20</sup> National Sharia Council of the Indonesian Ulema Council. (2000). *Fatwa No. 04/DSN-MUI/IV/2000 on Murabahah*.

<sup>21</sup> Ibrahim, Jaih M. (2020). *Principles of Islamic Banking Law in Indonesia*. Jakarta: Prenadamedia Group, pp. 112–114.

<sup>22</sup> Karim, Adiwarmanto A. (2014). *Islamic Banks: Fiqh and Financial Analysis*. Jakarta: RajaGrafindo Persada, p. 203.

<sup>23</sup> Handayani, R. (2022). Comparative analysis of the financial performance of Islamic banks and conventional banks during the Covid-19 pandemic. *JPPPI (Indonesian Journal of Educational Research)*. <https://doi.org/10.29210/020243829>

<sup>24</sup> Yuliani, S., Syahbudi, S., & Yulia, Y. (2023). Product development strategies for murabahah financing in efforts to develop SMEs at BSI Diponegoro Branch Office, Pontianak City. *Journal of Islamic Finance and Banking*, 2(1), 20–31. <https://doi.org/10.24260/jkubs.v2i1.1748>

### C. Legal and Policy Aspects of Sharia Financing for MSMEs

From a regulatory perspective, sharia financing for MSMEs in Indonesia has a strong legal basis, both in sectoral legislation and in the technical policies of financial institutions. In general, Islamic banking operates under the framework of Law No. 21 of 2008 on Islamic Banking, which provides a legal basis for sharia principles in fund collection and distribution, including to MSME players<sup>25</sup>.

This law stipulates that Islamic financing must be carried out based on the principles of fairness, partnership, transparency, and business ethics, which are very much in line with the character of MSMEs that are community-based and have a social entrepreneurship orientation.<sup>26</sup> In addition, this law also provides space for the development of various Islamic contracts such as mudharabah, musyarakah, and murabahah that are relevant to support micro and small financing needs.

On the technical policy side, the Financial Services Authority (OJK) has issued POJK Number 17/POJK.03/2021 concerning the Implementation of Business Activities Based on Sharia Principles for Sharia Commercial Banks and Sharia Business Units, which regulates in detail the mechanism for channeling financing to the productive sector, including MSMEs. This regulation encourages Islamic banks to increase their financing portfolios to the real sector through Sharia instruments, including microfinance schemes based on contracts that are more adaptive to the needs of small businesses<sup>27</sup>.

In addition, the state also plays a role through fiscal policies such as sharia financing margin subsidies through the Sharia People's Business Credit (KUR Syariah) program, which aims to expand sharia financial inclusion to micro and small businesses. The Ministry of Cooperatives and SMEs, together with the Ministry of Finance and the Association of State-Owned Sharia Banks, have encouraged the realization of Sharia KUR to increase from year to year, as part of the national financial inclusion strategic target<sup>28</sup>.

However, the implementation of this policy still faces a number of complex challenges. One of them is the imbalance in policy implementation in the regions, where access to sharia financing is still concentrated in big cities and economic centers, while MSME players in remote areas are difficult to reach by the sharia banking network. This condition is exacerbated by the limitations of sharia financial infrastructure, such as the lack of branch offices, bank agents, and digital services that are evenly distributed throughout the region<sup>29</sup>.

In addition, the quality of human resources (HR) in the Islamic banking sector is also uneven. Many bank employees still lack a deep understanding of the characteristics of MSMEs, both in terms of capital

<sup>25</sup> Rivai, A., Wahyudi, S., Abd. Majid, M. S., Marliyah, M., & Handayani, R. (2022). The impact of the Covid -19 pandemic on the stability of profit efficiency in Indonesian Islamic banking. *Economics, Finance, Investment, and Sharia (EKUITAS)*, 3(3), 322–328. <https://doi.org/10.47065/ekuitas.v3i3.1040>

<sup>26</sup> Ibrahim, Ja'ih M. *Principles of Islamic Banking Law in Indonesia*, (Jakarta: Prenadamedia Group, 2020), p. 113.

<sup>27</sup> Febriyanto, F., Pariyanti, E., Japlani, A., & Rinnanik, R. (2024). The moderating role of Islamic financing access in the impact of Islamic financial knowledge and financial confidence on financial well-being among MSME owners. *Journal of Business Management*, 15(2), 241–257. <https://doi.org/10.18196/mb.v15i2.22164>

<sup>28</sup> Agustina, A. (2023). The influence of fintech on the development of Islamic financial inclusion in MSMEs in Tanak Awu Village. *Journal of Islamic Economics*, 9(2), 2531–2536. <https://doi.org/10.29040/jiei.v9i2.8777>

<sup>29</sup> Mardhiyaturositaningsih, & Janah, R. (2025). Islamic financial inclusion in Islamic banks: A study of supply and demand in C entral Java. *Al-Bank: Journal of Islamic Banking and Finance*, 5(1).

requirements, risk management, and business assistance. This causes Islamic contracts, which should be flexible and partnership-based, to often be applied rigidly, even resembling conventional credit patterns<sup>30</sup>.

From a regulatory perspective, another challenge is the absence of derivative regulations that specifically govern ultra-micro Islamic financing. As a result, small businesses at the bottom layer, which actually need the most support, are not yet well accommodated. In addition, regulatory harmonization between agencies, such as the Financial Services Authority (OJK), the Ministry of Cooperatives and SMEs, and Bank Indonesia, still needs to be strengthened to avoid policy overlap<sup>31</sup>.

<sup>32</sup>Thus, it can be said that the challenges in implementing sharia financing policies for MSMEs are not only technical, but also structural and normative. This requires a reformulation of policies that not only expands the scope of financing, but also improves the quality of regulations, sharia financial literacy, and synergy between relevant institutions.

Therefore, regulatory strengthening needs to be directed at drafting implementing regulations that are affirmative towards MSME sharia financing, including incentives for sharia banks that actively channel funds to this sector, the development of sharia microfinance, and the integration of financing, assistance, and sharia legal literacy for MSME players<sup>33</sup>.

## CONCLUSION

Sharia financing, particularly through murabahah contracts, plays an important role in supporting the development of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia. Although it has a strong legal basis through the Sharia Banking Law, DSN-MUI fatwa, and OJK regulations, the effectiveness of this financing is highly dependent on the consistency of its implementation in the field. Murabahah, which ideally is a sale and purchase transaction based on the principles of fairness and transparency, is often misunderstood or applied in a manner similar to conventional credit systems, which ultimately reduces the Islamic values in such financing. On the other hand, for MSME players, especially those who do not have access to conventional financial institutions, murabahah remains an important gateway to obtaining business capital in a relatively easier way and in accordance with sharia principles. Therefore, to ensure that sharia financing can truly provide sustainable progress for MSMEs, it is necessary to strengthen the supervision of contract implementation, increase sharia financial literacy for business actors, and reformulate financing policies that are more participatory and based on social justice. Only with these steps can sharia banking become an instrument of financial inclusion that is not only legally valid but also socially relevant and economically effective.

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