

ANALYSIS OF MUDHARABAH AND MUSYARAKAH FINANCING BY ISLAMIC BANKS FOR THE DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES IN DELI SERDANG

Yauma Afrianti ^{a*)}, Tuti Anggraini ^{a)}, Atika ^{a)}

^{a)} *Universitas Islam Negeri Sumatera Utara, Medan, Indonesia*

^{*)} *Corresponding Author: yaumaafrianti09@gmail.com*

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Abstract. This study aims to analyze the role of Islamic financing through mudharabah and musyarakah contracts provided by Bank Syariah Indonesia (BSI) in the development of micro, small, and medium enterprises (MSMEs) in Deli Serdang Regency. Profit-sharing financing is considered an alternative solution in the Islamic financial system that not only prioritizes financial aspects but also fairness and partnership between banks and customers. This study uses a descriptive qualitative approach with in-depth interviews with BSI and several MSME recipients of financing. The data were analyzed narratively and linked to contemporary theories over the last five years (2019–2024). The results show that the majority of MSME players have a fairly good understanding of Islamic financing as a profit-sharing and riba-free funding system. The main factors driving the choice of Islamic financing are religious values, the fairness of the profit-sharing system, and social support. The type of contract chosen is tailored to business needs, with Mudharabah chosen by customers who need full capital from the bank, while Musyarakah is used by actors who have joint capital contributions. Sharia financing has been proven to have a positive impact on business development, particularly in terms of increasing capital, turnover, and production capacity. However, the challenges faced include lengthy administrative procedures and limited financing ceilings. Overall, sharia financing is considered capable of becoming an instrument of equitable economic empowerment that is in accordance with sharia principles, with the proviso that there is a need to improve services, assistance, and ongoing education for MSME players.

Keywords: Sharia Financing, Mudharabah, Musyarakah, MSMEs, Bank Syariah Indonesia

I. INTRODUCTION

MSMEs are independent productive business units, run by individuals or business entities in all economic sectors, which are believed to be capable of contributing to economic growth, not only in developing countries, but also in developed countries. (Halim, 2020)

The role of MSMEs in economic development is to increase state revenue, and MSMEs are capable of absorbing a large workforce and so on. Therefore, recognizing the importance of MSMEs, it is not surprising that the government has long had various programs that provide subsidized credit as the most important component to support the development and growth of MSMEs. In addition, MSMEs contribute to the Gross Domestic Product (GDP). The MSME sector is also a source of foreign exchange earnings for the country through the export of various types of products produced by this sector. (Trimulato, 2022)

Banking is one of the agents of development in the life of a nation, because the main function of banking is as a financial intermediary institution, namely an institution that collects funds from the public in the form of deposits and channels them back to the public in the form of credit or financing. This

function is also a concern of Islamic banking, in addition to its other functions as an institution that manages zakat, infaq, and sadaqah (zis). (Wardani, 2022)

The existence of Islamic banking in Indonesia has experienced significant development after the enactment of Law No. 10 of 1998 concerning amendments to Law No. 7 of 1992 concerning banking, which is more accommodating and provides opportunities for the development of Islamic banking. The presence of this law was further strengthened by the enactment of Law No. 21 of 2008 concerning Islamic banking, which explicitly recognizes the existence of Islamic banking distinguishing it from the conventional banking system. Article 1 paragraph 7 of Law No. 21 of 2008 concerning Islamic banking explains that Islamic banks are banks that carry out their business activities based on Islamic principles and, according to their type, consist of Islamic Commercial Banks (BUS) and Islamic Financing Banks (BPRS). In carrying out their business activities, Islamic banks provide 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 for profit (murabahah), or financing or capital goods based on the principle of pure leasing without option (ijarah), or leasing by a bank to another

party (ijarah wa iqtina), salam contracts, istisna contracts, leases ending in ownership (ijarah al-muntabiya bitamlik), and others that do not conflict with sharia principles. (Hosen, 2023)

Specifically in terms of distributing funds to the public, financing can be adjusted to customer needs. However, Islamic banking financing products theoretically still refer to mudharabah and musyarakah financing as the core contracts in the profit and loss sharing system. In a profit-sharing system, the ratio or proportion of profit sharing is determined at the time of the contract based on the possibility of profit and loss. Therefore, in a project undertaken by a customer, any losses will be shared. On the other hand, in a profit-sharing system, the amount of profit sharing increases in line with the increase in income, whereas in a conventional system, the amount of interest payments does not increase even if the amount of profit doubles. This concept provides opportunities for MSMEs to develop their businesses based on the principle of partnership as promoted by Islamic banking. As we know, the economic sector in Indonesia is in fact largely supported by the micro, small and medium enterprise (MSME) sector. (Majid, 2024)

Even during an economic crisis, this sector has proven to be resilient, meaning that MSMEs have advantages and great potential for further development through appropriate policies and support from the right institutions. The main problem faced by the MSME sector is capital, as they sometimes encounter difficulties in obtaining capital from banks. One of the reasons for this is the high interest rates on loans and the requirement for collateral, which they find difficult to meet. The provision of credit facilities as the main activity of banking institutions has essentially remained the same since long ago. However, in its current development, it is moving towards variations and patterns that combine technological developments with market segments and accompanying regulations. In terms of credit patterns and classifications, one of the banking products in providing credit to the public is through Micro, Small and Medium Enterprises (MSME) credit. (Medina Almunawaroh, 2023)

In the Deli Serdang region, Islamic banks play a significant role in supporting the development of Micro, Small, and Medium Enterprises (MSMEs) through mudharabah (profit sharing) and musyarakah (capital partnership) financing schemes. However, in practice, there are still a number of issues faced by the community and customers. These problems can be divided into two main aspects, namely from the perspective of MSME practitioners and from the perspective of Islamic financial institutions.

Many MSME practitioners in Deli Serdang do not yet fully understand the concepts of mudharabah and musyarakah financing. They still tend to equate this system with conventional interest-based loans, which raises concerns about risk, profit sharing calculations, and cooperation mechanisms. According to some members of the community, Sharia terms such as "nisbah," "akad," or "working capital" are complicated and confusing. As a result, many are reluctant to apply for financing because they are worried that they will not be able to meet the requirements or are afraid of being burdened with obligations.

Financing Requirements Considered Complex and Rigid
Some small business owners consider the administrative processes and requirements set by Islamic banks to be quite

difficult to fulfill. These include the requirement to prepare business proposals, financial reports, and certain guarantees. In fact, many MSME players in this region operate traditionally without formal records. This means that most of them end up not accessing Islamic financing and opt for informal sources of funding such as family loans or cooperatives.

Uncertainty and Fear of Profit Sharing
In mudharabah financing, profits are shared according to an agreed ratio, and the bank bears the losses if the business suffers a loss (as long as it is not due to customer negligence). However, in practice, the community feels that even in the event of a loss, they still have to pay a certain amount back to the bank. The community believes that the "profit sharing" system only applies when the business is profitable, while the greater risk is still borne by them. This indicates a miscommunication or lack of transparency in the implementation of the contract.

Lack of Assistance from Islamic Banks
MSME communities in Deli Serdang hope for business guidance and assistance from banks, especially after receiving financing. However, in reality, many customers feel "abandoned" after the funds are disbursed. They face business obstacles on their own without any guidance on development strategies, even though this is important to ensure business success and repayment of funds.

Lack of Socialization and Education
Sharia banks are considered to be lacking in socializing the benefits and mechanisms of sharia financing. The local community states that information about mudharabah and musyarakah products is rarely conveyed directly to villages or MSME centers. The majority only learn about this information through brochures, without in-depth explanations or real examples from MSME players who have successfully used this scheme.

In their operations, Islamic banks not only distribute funds to financing customers, but also collect funds from the public in the form of Third Party Funds (DPK). These funds usually come from savings products such as savings accounts and deposits, which are operated under the mudharabah contract principle and in some cases can be in the form of musyarakah. Although this system is based on Sharia law and aims to promote a fair economy, in practice a number of problems still arise among the community. One of the problems that often arises is the community's lack of understanding of mudharabah contracts as a form of investment cooperation.

Most people think that depositing money in a sharia bank is not much different from depositing money in a conventional bank that uses a fixed interest rate system. They do not yet understand that in a mudharabah contract, the funds they deposit are invested by the bank in productive business sectors, and the returns depend on the performance of those businesses. This means that profits are uncertain and may be less than expected—in certain circumstances, there may be no profit at all. This causes disappointment among some customers when the returns they receive do not meet their expectations. They feel "cheated" when the profit sharing they receive is less than the previous month, without understanding that this is normal in a sharia-based profit and loss sharing system.

Some even assume that Islamic banks are "playing games" in profit sharing, because there is not enough transparency regarding where their funds are channeled and how the bank's financial performance is. On the other hand, the musyarakah

contract form in fund collection is relatively rarely used directly in public deposit products. However, in certain cases, especially for investment or capital cooperation in projects, Islamic banks and customers can enter into musyarakah cooperation. The problem that often arises in this case is the level of trust. Many people are still hesitant to invest their funds in the form of musyarakah because they are unsure about the supervisory system, profit sharing, and the risk of loss.

They are concerned that their funds will not be managed professionally or that they will suffer losses without any guarantee of return. Another problem is the lack of socialization and education from the bank. Some people, especially in rural or suburban areas, do not have a sufficient understanding of the differences between wadiah, mudharabah, and musyarakah contracts. They save money simply because they want to keep their money safe, not because they understand the profit-sharing system or want to invest in sharia. As a result, when there are fluctuations in profits or when there is no profit sharing, they tend to be suspicious or disappointed with the bank. In fact, there are also people who feel subtly deceived, because from the beginning they were not explained in detail that there was a possibility of not getting any returns at all in a mudharabah contract. In fact, in sharia principles, this is valid as long as transparency is carried out from the beginning through a clear contract.

Based on the above explanation, the author is interested in conducting research on the analysis of financing, Mudharabah, and Musyarakah by Islamic Banks on the development of MSMEs in Deli Serdang. Therefore, the objective of this study is to determine how financing, Mudharabah, and Musyarakah by Islamic Banks affect the development of MSMEs in Deli Serdang.

Hafidz Maulana Muttaqin, Ahmad Mulyadi Kasim, Abrista Devi with the article title *The Role of Islamic Banking in Promoting Micro, Small and Medium Enterprises during the COVID-19 Pandemic*. This study aims to determine the role of Islamic banking in promoting Micro, Small, and Medium Enterprises (MSMEs) at Bank Syariah Indonesia (BSI) KC Ahmad Yani, Bogor City, during the COVID-19 pandemic. Based on the results of the research and discussion, it is known that Bank Syariah Indonesia KC Ahmad Yani Kota Bogor plays an important role in maintaining MSMEs during the COVID-19 pandemic by distributing the government's KUR (People's Business Credit) program. Several factors posed risks to financing during the Covid-19 pandemic at Bank Syariah Indonesia KC Ahmad Yani Kota Bogor, including customers being late in paying installments and the solutions implemented by Bank Syariah Indonesia KC Ahmad Yani Kota Bogor by communicating with customers every month to ask about their businesses and whether they had experienced a decline or progress.

Chilmi Muzahida, Ali Hamda with the article title *Analysis of the Effect of Mudharabah and Musyarakah Financing on the Development of MSMEs in the GEMPYTA NGO*. Based on the results of the research and discussion, each variable has an influence between the variables of Mudharabah Financing and Musyarakah Financing on the development of MSMEs. From the results of this study, it can be seen that the influence of mudharabah and musyarakah financing has a significant effect on the development of the MSME sector.

Based on the t-test results for mudharabah financing, the t-count is $>$ t-table, namely $6.986 > 1.9858$, so that the independent variable has a significant effect on the dependent variable with a value of $0.000 < 0.05$, so that H_0 is rejected and H_1 is accepted. Meanwhile, musyarakah financing has a t-test result of $8.223 >$ t-table 2.06390 and is significant at $0.000 < 0.05$, so H_2 is rejected and H_3 is accepted. In practice, mudharabah and musyarakah financing agreements are similar, with the only difference being the percentage of financing. The factors that cause customers to choose between mudharabah and musyarakah financing are simply which one better suits their needs.

Research on profit-sharing financing such as mudharabah and musyarakah has been conducted in various regions in Indonesia. However, most of these studies still focus on analysis at the national or provincial level, such as Jakarta, West Java, and East Java. Studies that specifically examine the impact of mudharabah and musyarakah financing on the development of MSMEs in the Deli Serdang region are still very limited. In fact, Deli Serdang is one of the regions with considerable economic potential, especially in the trade, agriculture, and small and medium-sized enterprise sectors, which are in line with the principles of productive financing in Islamic banking.

In addition, most previous studies have focused more on the impact of Islamic financing on bank financial performance, such as profitability (ROA) or non-performing financing (NPF) rates. Studies exploring the direct impact of profit-sharing financing on the development of MSMEs, such as increased turnover, productivity, and business capacity of MSME players, are still rare. In fact, one of the main objectives of Islamic banking is to encourage the growth of the real sector through a fair and mutually beneficial partnership system. In addition, there is also a research gap in terms of comparisons between contracts. Many studies only focus on one type of contract, such as musyarakah, because it is considered to be more dominant in Islamic banks. Meanwhile, studies comparing the effectiveness of mudharabah and musyarakah contracts in promoting MSME growth are still very limited, especially at the branch level.

Bank Syariah Indonesia (BSI) Deli Serdang Branch. In fact, these two contracts have different characteristics and risk levels, so their effects on business development can also vary. Furthermore, most previous studies have been limited to quantitative approaches or secondary data, without delving deeper into the real constraints in the implementation of profit-sharing financing in the field. In practice, Islamic banks still face many obstacles in disbursing profit-sharing financing, such as low Islamic financial literacy among MSME players, limited collateral, and the existence of moral hazard risks. These aspects have not been comprehensively revealed in previous studies.

Based on the above description, it can be concluded that there is still a clear research gap, namely the absence of empirical and contextual research on how mudharabah and musyarakah financing by Bank Syariah Indonesia (BSI) Deli Serdang Branch contributes to the development of MSMEs in the region. This study has novelty value because it not only analyzes the influence of these two contracts on the growth of small and medium enterprises, but also explores the inhibiting factors and efforts to optimize profit-sharing financing so that

it can make a real contribution to the regional economy. Thus, this study is expected to fill the gap in the literature on the implementation of profit-sharing financing at the regional level and provide scientific and practical contributions to the development of Islamic banking policies that are more supportive of strengthening the MSME sector.

II. RESEARCH METHODS

This research is qualitative research using an exploratory descriptive approach. The descriptive approach is a research approach that aims to make factual and systematic descriptions of the issues being studied. The exploratory approach is a research approach that attempts to seek and reveal findings on the issues being studied. Through these two approaches, a solution concept is then formulated as an effort to solve the problem, which is compiled in the form of a comprehensive discussion. This research is a research and development study that attempts to formulate solutions to existing problems. This research is a type of library research conducted through a review of various literature relevant to the research (Suryana, 2010).

The data in this study was obtained from secondary sources. Data from secondary sources was collected through a review of various literature relevant to the research. The literature referred to consists of scientific journals, books, mass media news, and the internet that are considered credible and of good national and international standards. (Erininda, Stiawan, & Aryani, 2023).

Descriptive research is research that aims to describe a phenomenon, event, or occurrence that is happening at the present time. Meanwhile, qualitative research is descriptive in nature. The data sources were obtained through interviews conducted with 5 people from Bank BSI and Bank customers in Deli Serdang. In addition to interviews, data was collected through document studies. Document studies or documentary studies are data collection techniques that involve collecting and analyzing documents, whether in written, image, or electronic form. Data collected through descriptive analysis of qualitative data (Melong, 2015) is reducing data, which means summarizing, selecting key points, focusing on important matters, looking for themes and patterns, and discarding unnecessary information. Data reduction can be done by performing abstraction. Abstraction is an effort to create a summary of the core, processes, and statements that need to be maintained so that they remain in the research data. In other words, this data reduction process is carried out continuously by researchers during their research to produce core notes from the data obtained from data mining. Data Presentation: Data presentation is a collection of structured information that allows conclusions to be drawn. Conclusions and Verification: Conclusions or verification are the final stages in the data analysis process. (Yuliana, 2020)

III. RESULTS AND DISCUSSION

MSME Practitioners' Understanding of Sharia Financing Based on the results of in-depth interviews, MSME practitioners demonstrated a fairly good level of understanding of the concept of sharia financing. They understand that sharia

financing is a funding system based on the principles of fairness, cooperation, and freedom from usury. This finding is in line with Antonio's (2011) opinion, which explains that Islamic finance emphasizes the principles of profit and loss sharing and avoids the practices of usury, gharar, and maisir. Informants such as Mrs. Siti Rahma stated that Islamic finance makes her feel more at ease because it does not use an interest-based system. This shows a strong religious awareness in financial decision-making. This religious factor was also found in Putri's (2020) research, which stated that religious motivation is a major determinant of public interest in Islamic financial products. Apart from religious aspects, the trust and reputation of Islamic financial institutions are also important reasons. Respondents consider Islamic banks to be more transparent in explaining financing mechanisms and profit-sharing systems. These findings support research by Hidayat and Nurfa'ah (2019), which found that perceptions of transparency and fairness influence customers' decisions in choosing Islamic financial institutions.

Reasons for Choosing the Type of Contract (Mudharabah / Musyarakah) The interview results show that the choice of contract type is based on business needs and conditions. Business actors who already have capital tend to choose the Musyarakah contract, because it allows for joint capital participation between the bank and the customer. Meanwhile, business actors who are just starting their business prefer Mudharabah contracts, where the bank provides all the capital and the customer acts as the manager. This is in line with the theory of Islamic financing proposed by Karim (2010), which states that Musyarakah contracts are suitable for businesses that are already operating under a partnership system, while Mudharabah contracts are more relevant for start-ups that require full capital. Banks are also considered to play an active role in providing an understanding of the differences between contracts, as stated by several sources. This shows that education from banks contributes to increasing Islamic financial literacy among MSME players. In addition, the profit-sharing system is considered fairer than the conventional interest system because it adjusts to the business results obtained. These findings support research by Maulana (2021), which states that perceptions of the fairness and flexibility of the profit-sharing system are one of the main reasons customers switch to Islamic financing.

The Impact of Sharia Financing on Business Development Sharia financing has been proven to have a positive impact on the business development of MSME players. Most informants claimed to have experienced an increase in working capital, turnover, and the ability to expand their business network after receiving financing. These results are in line with the findings of Wulandari and Kassim (2016), which state that sharia-based financing has a significant influence on the growth of small and medium enterprises through increased capital capacity and productivity. In addition to economic impacts, there are also social impacts in the form of increased responsibility and discipline in managing businesses. This reflects that the sharia system is not only oriented towards financial profits, but also towards the formation of Islamic business ethics. The interaction between banks and customers also shows a positive and mutually supportive relationship. The monitoring carried out by banks during the financing period is considered to help

business actors overcome operational obstacles. This reinforces the concept that Islamic banks function as business partners, not merely as fund providers, as stated by Ascarya (2011).

Challenges in Implementing Sharia Financing Although the benefits are considered significant, MSME players still face various challenges in the sharia financing process. The main challenges identified from the interviews are complex administrative requirements, limited understanding of contracts, and the lengthy process of disbursing funds. As stated by Mr. Rizal Harahap, many small business owners do not yet have official licenses, making it difficult for them to fulfill the document requirements. This shows a gap between the policies of financial institutions and the real conditions of MSME players in the field. These findings are consistent with research by Fitria (2020), which explains that administrative barriers and low financial literacy are the main factors hindering the optimization of Islamic financing in the MSME sector. Therefore, a more inclusive approach is needed so that Islamic financing can reach more small and micro businesses. MSME Actors' Expectations of Islamic Banks Based on interviews, MSME actors have high expectations that Islamic banks will expand access to financing and improve business assistance. They want a simpler process and ongoing education about Islamic contract mechanisms and financial management. These expectations are in line with the recommendations of the Financial Services Authority (OJK, 2023), which encourages Islamic financial institutions to strengthen their financial inclusion functions through community-based education and assistance. Thus, Islamic financing is not only an economic instrument but also a means of social empowerment for MSME players. Overall, the results of this study indicate that Islamic financing plays an important role in the development of MSMEs, both in terms of capital, spirituality, and business partnerships. However, its effectiveness still requires support in the form of increased literacy, simplified procedures, and financing product innovations that are more suited to the needs of the micro and small sectors.

Understanding and Reasons for Choosing Sharia Financing

Based on the results of interviews with informants, in general, MSME players have a good understanding of sharia financing, although there are still variations in the level of understanding among respondents. Ms. Yasmin and Ms. Dian explained that sharia financing is a form of funding that uses profit-sharing principles and is free from usury, in accordance with Islamic teachings. Meanwhile, Mr. Muhammad Fauzi and Mr. Arif emphasized that the sharia system places greater emphasis on fairness and cooperation between customers and banks, rather than a creditor-debtor relationship as in conventional financing. Mr. Fiki added that sharia financing is considered safer and more reassuring because it is in accordance with Islamic values.

When asked about their reasons for choosing sharia financing, most respondents stated that religious factors and sharia values were their main considerations. Ms. Yasmin said that she wanted her business to grow in a halal manner and in accordance with sharia law. Mr. Muhammad Fauzi considered the interest system used by conventional banks to be burdensome, while profit sharing felt more fair and transparent. However, all informants also acknowledged that support from their environment, family, and recommendations from friends

also influenced their decisions. For example, Mr. Arif learned about Islamic financing products from his fellow MSME entrepreneurs, while Mrs. Dian learned about Mudharabah and Musyarakah contracts through information provided by the bank. According to the informants, the main advantages of Islamic financing lie in the profit-sharing system, fair transactions, and business blessings. This system is considered to not impose a fixed burden such as interest and is able to encourage healthy cooperation between banks and customers. Thus, the results of these interviews reinforce the theory of sharia risk management (Antonio, 2001), which emphasizes that partnership-based financing reduces moral hazard risk and increases a sense of shared responsibility between banks and customers.

Reasons for Choosing the Type of Contract (Mudharabah / Musyarakah)

In determining the type of contract, the interviewees had different considerations based on the characteristics of their businesses. Ms. Yasmin and Mr. Fiki chose the Mudharabah contract because it did not require them to provide joint capital and the system allowed the bank to act as the capital provider, while the customers acted as business managers. Conversely, Mr. Muhammad Fauzi, Ms. Dian, and Mr. Arif used the Musyarakah contract because they felt it was more suitable for a model of joint capital and business cooperation.

All sources acknowledged that the bank had explained the differences between the two contracts before the financing process, so they could choose according to their business needs. They also understood that the profit-sharing system was determined based on the initial agreement and depended on business performance. According to Ms. Yasmin, the profit-sharing system is more "humane" and fair than fixed interest that must be paid even when the business is declining. This is in line with the concept of distributive justice in Islamic economic theory, where risks and profits are shared proportionally according to each party's contribution (Chapra, 2000).

The Impact of Financing on Business Development

Before receiving financing, most MSME players experienced capital constraints and difficulties in expanding their businesses. Mr. Muhammad Fauzi said that before financing, his garment business was still small in scale with limited turnover. After receiving sharia financing, there was an increase in working capital which led to an increase in turnover and expansion of the distribution network. Ms. Yasmin and Ms. Dian also felt an increase in production capacity and ease in obtaining raw materials. Mr. Arif added that sharia financing gave him the opportunity to increase his workforce and expand his market through new partnerships. The interviewees assessed that their relationship with the bank during the financing period was good and communicative. Bank officers routinely monitored and provided administrative assistance. In addition, almost all respondents expressed interest in reapplying for sharia financing in the future because they felt helped and believed in its transparent and religiously compliant system. These results support the findings of previous research (Ismail, 2011) that profit-sharing-based financing can increase the productivity and financial stability of MSMEs and build sustainable partnerships between banks and customers.

Challenges and Expectations

Despite the positive impact, the interviewees also acknowledged the challenges they faced when using Islamic financing. Ms. Yasmin and Ms. Dian highlighted the lengthy administrative procedures and the need for detailed documentation. Mr. Arif mentioned that the disbursement of funds sometimes took a long time, while Mr. Fiki considered the financing ceiling for MSMEs to be relatively small compared to their capital needs. In addition, some business owners hoped for business guidance and management assistance so that the financing received could be used more effectively for business development. In terms of service, all informants considered Islamic banks to be quite good and friendly, although there was a need for improvement in terms of responsiveness and policy flexibility for MSME players. The sources hope that Islamic banks will continue to expand access to financing, simplify administrative processes, and provide ongoing education on the principles of Islamic contracts to the public. Thus, Islamic financing is expected to not only be a source of capital, but also a means of economic empowerment for the community.

Overall, the interview results show that MSME actors' decisions to choose sharia financing are influenced by religious factors, perceptions of fairness in the profit-sharing system, and social support. The type of contract is chosen according to the characteristics of the business, and financing has been proven to have a positive impact on business development, both in terms of capital and turnover. However, there is still a need to improve services, simplify procedures, and provide sharia education so that this financing can be more optimal in supporting the growth of MSMEs in the future.

IV. CONCLUSIONS

Based on the results of research conducted through in-depth interviews with MSME actors who use sharia financing, it can be concluded that the sharia financing system plays an important role in supporting the development of small and medium-sized enterprises. MSME players demonstrate a fairly good understanding of the concept of Islamic financing, which is based on the principles of fairness, profit sharing, and freedom from usury. Religious aspects are a dominant factor in their decision to choose the Islamic system, accompanied by trust in the transparency and reputation of Islamic financial institutions, which are considered to be more fair and spiritually comforting. The choice of contract type, whether Mudharabah or Musyarakah, is made by considering the needs and conditions of the business. Business actors who already have capital tend to choose the Musyarakah contract because it provides room for partnership between the bank and the customer, while business actors who are just starting out prefer the Mudharabah contract because the financing is fully borne by the bank. Customers also consider that the profit-sharing system applied in Islamic contracts is much fairer than the interest system in conventional financing, because profits and risks are shared in accordance with the principles of justice taught in Islam. In terms of impact, Islamic financing contributes significantly to improving business performance. Most MSME players experience growth in terms of working capital, increased turnover, and expansion of business networks after receiving financing. More than just financial support, the relationship between banks and customers is also communicative and partnership-based, which encourages a sense of responsibility and professionalism in managing businesses. Thus, Islamic financing plays a role not only as an economic instrument, but also as a means of social and spiritual empowerment for MSME players. However, this study also found several challenges faced by MSME players in the financing process, such as administrative requirements that are considered quite complicated, the length of the fund disbursement process, and a low level of understanding of Islamic contract mechanisms. This condition shows the need for improvements in financial literacy and simplification of procedures so that Islamic financing can be more widely accessed by micro and small business actors. In the future, it is hoped that Islamic financial institutions can expand access and strengthen their educational functions through assistance and training for customers. This step is important so that MSME players not only obtain capital assistance, but also gain a more comprehensive understanding of sharia-based financial management. In addition, support from the government and financial authorities is also expected. In addition, support from the government and financial authorities is also expected to strengthen Islamic financial inclusion through policies that favor small businesses. Overall, the results of this study confirm that Islamic financing has great potential in strengthening the MSME sector in Indonesia. With the application of the principles of fairness, transparency, and true partnership between banks and customers, the Islamic financing system not only functions as a source of funding but also as a means of building economic prosperity based on Islamic moral and spiritual values.

Table 1. Classification of Sharia Financing Based on Contracts

MSME Actors	Type of Agreement Entered Into	Key Characteristics/Reasons for Selection	Address
Yasmin	Mudharabah	The capital is provided by the bank, the business owner as the manager; profit sharing is considered "humane" and fair.	Jl. Dr. Sutomo No. 12A-12B, Kelurahan Lubuk Pakam I-II, Kecamatan Lubuk Pakam, Kabupaten Deli Serdang.
Fiki	Mudharabah	No need to provide your own capital, just manage it to suit businesses with small capital.	Jl. Dr. Sutomo No. 12A-12B, Kelurahan Lubuk Pakam I-II, Kecamatan Lubuk Pakam, Kabupaten Deli Serdang.
Muhammad Fauzi	Musyarakah	Both parties (the bank and the customer) pooling capital and joint ventures are suitable for collaborative ventures.	KCP MEDAN SETIA BUDI Kompl. Perumahan Nice Commercial, Blok B No. 4, Jl. Setia Budi
Dian	Musyarakah	Want to share capital and business with banks so that risks and profits are shared.	Jl. Dr. Sutomo No. 12A-12B, Kelurahan Lubuk Pakam I-II, Kecamatan Lubuk Pakam, Kabupaten Deli Serdang.
Arif	Musyarakah	Cooperative models and shared capital according to business characteristics; feel more equitable.	Jl. Dr. Sutomo No. 12A-12B, Kelurahan Lubuk Pakam I-II, Kecamatan Lubuk Pakam, Kabupaten Deli Serdang.

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