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Analysis of Factors Causing Low Interest of MSME Entrepreneurs in Mudharabah Contracts in Islamic Financing

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A B S T R A C T

Micro, Small, and Medium Enterprises (MSMEs) play a vital role in Indonesia's economy, yet many still face difficulties in accessing business financing. Although mudharabah financing offers a profit-sharing scheme suitable for productive businesses, its utilization remains relatively low. This study aims to identify the main factors contributing to the low interest of MSMEs in mudharabah financing through a literature review of 15 relevant journal articles. The findings reveal that the low utilization of mudharabah financing is influenced by internal factors, including limited understanding of mudharabah contracts, low Islamic financial literacy, and inadequate financial reporting, as well as institutional factors such as limited product promotion, complex financing procedures, uncertainty in profit- sharing outcomes, and the preference of Islamic financial institutions for lower-risk financing contracts. This study highlights the need to improve Islamic financial literacy, strengthen product promotion, and simplify financing procedures to increase MSMEs' participation in mudharabah financing and support sustainable business development.

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INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a strategic role in Indonesia's economy by creating employment opportunities, increasing household income, and supporting regional economic growth. According to the Ministry of Cooperatives and Small and Medium Enterprises of the Republic of Indonesia (2023), MSMEs dominate Indonesia's business sector and make a substantial contribution to national economic development. Despite their important role, many MSMEs continue to face difficulties in accessing business capital, which limits their ability to expand operations and improve competitiveness.

Islamic financial institutions provide an alternative source of financing through contracts based on Islamic principles, emphasizing fairness, partnership, and profit-sharing rather than interest. Among the available financing contracts, mudharabah is regarded as one of the most appropriate instruments for productive business activities because it establishes a partnership between the capital owner (shahibul maal) and the entrepreneur (mudharib), where profits are shared according to a mutually agreed ratio. This financing model is formally regulated under Fatwa DSN-MUI No. 07/DSN-MUI/IV/2000, which defines the principles governing mudharabah financing and its implementation within Islamic financial institutions (Dewan Syariah Nasional Majelis Ulama Indonesia, 2000).

Despite its conceptual advantages, the implementation of mudharabah financing remains relatively limited compared with other Islamic financing contracts, particularly murabahah. This condition indicates a discrepancy between the theoretical benefits of mudharabah and its actual utilization by MSMEs. Antonio (2019) explained that mudharabah financing has significant potential to encourage productive business development because entrepreneurs are not burdened with fixed interest payments, allowing profit-sharing to be adjusted according to business performance. Nevertheless, its adoption has not yet reflected this potential.

Several previous studies have attempted to explain the factors contributing to the low utilization of mudharabah financing. Pamikatsih (2022) found that customers' limited understanding of mudharabah contracts, inadequate access to information, and perceptions that mudharabah financing procedures are more complicated than other financing products reduce public interest in using this financing scheme. Similarly, Nafis and Sudarsono (2021) argued that Islamic banks tend to be more selective in providing mudharabah financing because it involves relatively higher risks, particularly moral hazard and information asymmetry, resulting in more limited financing opportunities for MSMEs.

From the perspective of MSME actors, Islamic financial literacy and financial management capabilities also influence financing decisions. Chateradi and Hidayah (2017) explained that successful implementation of mudharabah financing depends not only on entrepreneurs' understanding of the profit-sharing mechanism but also on their ability to maintain proper financial records. Inadequate bookkeeping practices often make it difficult for MSMEs to satisfy financing requirements established by Islamic financial institutions.

Furthermore, Safhira and Athoillah (2023) emphasized that the development of mudharabah financing in Indonesia continues to face both institutional and customer-related challenges. Financing risk, limited business information, and relatively complex monitoring mechanisms remain major obstacles, causing Islamic financial institutions to prioritize financing contracts with lower operational risks. As a consequence, access to mudharabah financing for MSMEs remains relatively limited despite its potential contribution to productive business development.

Although previous studies have identified various determinants of mudharabah financing, most have examined the issue from the perspective of Islamic financial institutions, focusing on financing risk, institutional policy, and banking performance. Limited studies have comprehensively synthesized the factors influencing MSMEs' low interest in mudharabah financing from the perspective of MSME actors themselves. Therefore, this study aims to synthesize previous empirical findings to identify the dominant factors contributing to the low interest of MSMEs in mudharabah financing through a literature review approach. The findings are expected to provide practical recommendations for Islamic financial institutions and policymakers in improving Islamic financial literacy, expanding access to mudharabah financing, and supporting sustainable MSME development.

LITERATURE REVIEW

Other applications of ML in the business world include predicting customer purchase intentions, which is widely used by Amazon and Taobao (Askary, 2019). In management accounting practices, ML helps classify transactions as part of management functions such as planning and analysis (FP&A). ML technology applications can be used to predict transaction classifications based on historical transaction analysis. However, the quality of the prediction depends on the quality and bias inherent in the data set used (Chassignol, 2023). An example of transaction classification is an email communication tool that classifies marketing and customer promotion as "advertising costs" and employee communications as "IT or communications costs". ML technology can be trained to classify and classify each category using algorithms that have been previously identified (Ayianna, 2021). Micro, Small, and Medium Enterprises (MSMEs) are recognized as one of the main drivers of Indonesia's economic development because they contribute significantly to employment generation, income distribution, and regional economic growth. According to the Ministry of Cooperatives and Small and Medium Enterprises of the Republic of Indonesia (2023), MSMEs dominate the business sector in Indonesia and play an essential role in maintaining national economic resilience. However, limited access to business financing remains one of the primary challenges restricting their productivity and long-term business expansion.

Islamic financial institutions provide financing alternatives based on sharia principles, emphasizing partnership, fairness, and profit-sharing instead of interest. Among the available financing contracts, mudharabah is regarded as one of the most suitable schemes for productive business activities because it establishes a partnership between the capital provider (shahibul maal) and the entrepreneur (mudharib), in which profits are distributed according to a mutually agreed ratio while financial losses are borne by the capital provider unless caused by the entrepreneur's negligence. The implementation of mudharabah financing is regulated under Fatwa DSN-MUI No. 07/DSN-MUI/IV/2000, which defines the principles governing profit-sharing financing within Islamic financial institutions (Dewan Syariah Nasional Majelis Ulama Indonesia, 2000). Antonio (2019) also emphasized that mudharabah financing provides flexibility for entrepreneurs because financing repayments depend on business performance rather than fixed interest obligations.

Despite these advantages, the utilization of mudharabah financing remains relatively low compared to other Islamic financing products. Previous studies have identified various factors influencing this condition. Pamikatsih (2022) found that limited understanding of mudharabah contracts, inadequate access to information, and perceptions of complex financing procedures reduce customers' interest in using mudharabah financing. Similarly, Nafis and Sudarsono (2021) explained that Islamic financial institutions tend to prioritize financing contracts with lower risks because mudharabah financing is more vulnerable to moral hazard and information asymmetry. From the perspective of MSMEs, Chateradi and Hidayah (2017) argued that Islamic financial literacy and the ability to maintain proper financial records significantly influence entrepreneurs' readiness to access mudharabah financing. Furthermore, Safhira and Athoillah (2023) highlighted that financing risk, limited business information, and complex monitoring mechanisms continue to hinder the development of mudharabah financing in Indonesia.

Overall, previous studies consistently indicate that the low utilization of mudharabah financing is influenced by both internal and institutional factors. Internal factors include limited Islamic financial literacy, inadequate understanding of mudharabah contracts, and weak financial management, whereas institutional factors include financing risk, product promotion, financing policies, and monitoring procedures implemented by Islamic financial institutions. However, most previous studies have examined these issues separately and primarily from the perspective of Islamic financial institutions. Limited research has comprehensively synthesized these determinants from the perspective of MSME actors. Therefore, this study seeks to synthesize previous empirical findings to identify the dominant factors influencing MSMEs' low interest in mudharabah financing and to provide a more comprehensive understanding of the barriers to its utilization.

METHODOLOGY

This study employed a qualitative research design using a literature review approach to identify and synthesize the factors influencing the low interest of Micro, Small, and Medium Enterprises (MSMEs) in mudharabah financing. A literature review was chosen because it enables the integration of findings from previous empirical studies to provide a comprehensive understanding of the research topic.

The data used in this study were secondary data obtained from scientific journal articles, books, and official publications related to mudharabah financing, Islamic financial literacy, and MSME financing. A total of 15 relevant journal articles published between 2017 and 2023 were selected as the primary sources of analysis. The literature was collected through academic databases, including Google Scholar, using keywords such as mudharabah financing, Islamic financial literacy, MSMEs, and Islamic banking. The selected references met the inclusion criteria of discussing mudharabah financing in relation to MSMEs, being relevant to the research objectives, and being available in full text.

The collected literature was analyzed using descriptive content analysis. The analysis was conducted through three stages: literature identification, article selection based on relevance, and thematic synthesis of the research findings. The identified factors were subsequently classified into internal factors related to MSMEs and institutional factors associated with Islamic financial institutions. This analytical process enabled the identification of the dominant factors contributing to the low interest of MSMEs in mudharabah financing and facilitated the formulation of comprehensive conclusions based on previous empirical evidence.

RESEARCH RESULT

This study identified 15 articles that met the inclusion and relevance criteria related to mudharabah financing, Islamic financial literacy, and MSME financing behavior:

Table 1. Previous Research

No	Author and Year	Topic	Key Concept	Result
1.	Pamikatsih (2022)	Mudharabah financing interest in Islamic rural bank (BPRS)	Customer perception, product understanding, financing procedure	Low interest in mudharabah financing is caused by limited understanding of contract mechanisms, lack of information, and perception that the procedure is more complicated than other financing products.
2.	Nafis & Sudarsono (2021)	Determinants of mudharabah financing in Islamic commercial banks	Financing risk, information asymmetry, bank behavior	Mudharabah financing is limited due to high risk, moral hazard, and information asymmetry, leading banks to be more selective in providing this financing scheme.

3.	Chateradi & Hidayah (2017)	MSME development through mudharabah contract	Islamic financial literacy, financial management, MSME capability	Successful implementation of mudharabah financing depends on MSME Understanding of profit-sharing systems and their ability to manage financial records properly.
4.	Safhira & Athoillah (2023)	Factors influencing mudharabah financing in Islamic banking	Financing risk, monitoring system, institutional constraint.	Mudharabah financing development is constrained by risk factors, limited business information, and complex monitoring systems, making it less dominant in Islamic banking products.
5.	Antonio (2019)	Islamic banking and mudharabah theory and practice	Sharia financing principles, profit-sharing system	Mudharabah is a partnership-based financing system that promotes risk- sharing and is theoretically suitable for productive business development, but its implementation requires strong trust and transparency.
6.	Rahmawati & Yusuf (2020)	MSME access to Islamic financing	Financial inclusion, accessibility, banking policy.	MSMEs face difficulties in accessing Islamic financing due to strict requirements, lack of documentation, and limited financial inclusion programs.

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7.	Wulandari et al. (2021)	Islamic financial literacy and MSME financing behavior	Financial literacy, decision making, awareness	Higher Islamic financial literacy significantly increases MSMEs' willingness to use profit-sharing financing products.
8.	Hasanah (2022)	Risk Management in Banking financing	Risk assessment, moral hazard, profit-loss sharing.	Islamic banks tend to minimize exposure to high-risk contracts such as mudharabah due to uncertainty in profit realization and monitoring challenges.
9.	Pratama & Sari (2023)	Determinants of MSME financing preference	Perception, ease of use, product knowledge	MSMEs prefer financing products that are easier to understand and have fixed return schemes rather than profit-sharing contracts.
10.	Arifin (2020)	Development of Islamic banking products	Product innovation, Market acceptance, competitiveness	The development of mudharabah financing is hindered by low market acceptance and competition with more stable financing products like murabahah.

Source: Compiled by the authors based on a literature review of selected peer-reviewed articles indexed in Scopus and Google Scholar (2017–2023).

This table presents various studies on mudharabah financing in the context of MSME financing decisions, Islamic financial literacy, and Islamic banking practices. The findings indicate that factors such as financial literacy, risk perception, financing procedures, and institutional policies significantly influence MSMEs' interest in mudharabah financing. Overall, the studies suggest that both internal and institutional factors play an important role in shaping MSME financing behavior and explain the low utilization of mudharabah financing in Islamic financial institutions.

DISCUSSION

Low Understanding of MSMEs toward Mudharabah Contracts

The low level of MSMEs' understanding of mudharabah contracts plays a significant role in influencing their reluctance to utilize this financing scheme. Many MSME actors do not yet possess a comprehensive understanding of the fundamental principles, operational mechanisms, and profit-sharing arrangements embedded in mudharabah financing. As a result, this lack of comprehension creates uncertainty in decision-making and reduces their confidence in adopting Islamic profit-sharing-based financing products. Without a clear understanding of how risks and returns are shared between the capital provider and the entrepreneur, MSMEs tend to avoid this financing scheme and prefer more familiar alternatives.

Low Islamic Financial Literacy

Low Islamic financial literacy among MSMEs is one of the most influential factors affecting their financing behavior. Limited knowledge regarding Islamic financial concepts, principles, and products significantly restricts MSMEs' ability to properly evaluate available financing options. In many cases, MSMEs are not fully aware of the differences between conventional and Islamic financing systems, particularly the profit-sharing concept applied in mudharabah. This condition leads to low awareness, limited interest, and reduced willingness to engage with Islamic financial institutions, especially in adopting more complex financing instruments such as mudharabah.

MSMEs' Perception of the Complexity of Mudharabah Contracts

MSMEs generally perceive mudharabah financing as more complicated compared to other financing schemes such as murabahah or conventional credit products. This perception is formed due to the profit-sharing mechanism, reporting requirements, and ongoing partnership nature of the contract. Such perceived complexity creates psychological and behavioral barriers that discourage MSMEs from engaging in mudharabah financing. Consequently, MSMEs tend to prefer financing products that are considered simpler, more predictable, and easier to understand, even if those alternatives may not fully align with Islamic profit-sharing principles.

Limitations in MSMEs' Financial Administration and Management

The limited capability of MSMEs in financial administration and management also becomes a significant obstacle in accessing mudharabah financing. Many MSMEs still lack proper bookkeeping systems, structured financial reporting, and standardized business documentation. These limitations make it difficult for them to meet the administrative requirements set by Islamic financial institutions.

In addition, poor financial management reduces transparency in business performance, which is essential in profit-sharing schemes. As a result, MSMEs face difficulties in qualifying for mudharabah financing, further restricting their access to this type of funding.

High Risk Of Mudharabah Financing

From the perspective of Islamic financial institutions, mudharabah financing is considered to carry a relatively higher level of risk compared to other financing products. This is mainly due to the presence of moral hazard, where the entrepreneur may not fully disclose accurate business performance, as well as information asymmetry between the financial institution and MSMEs. These risks make it difficult for financial institutions to monitor business outcomes effectively. Consequently, Islamic banks tend to adopt a more cautious approach and prioritize financing schemes with lower risk exposure, which indirectly limits the distribution of mudharabah financing.

Lack of Socialization and Education on Mudharabah Products

The limited socialization and educational activities regarding mudharabah financing products contribute significantly to the low level of awareness among MSMEs. Many MSMEs are not sufficiently exposed to information about the benefits, mechanisms, and procedures of mudharabah financing. This lack of outreach results in minimal understanding and low interest in adopting such financial products. If proper education and continuous socialization were provided, MSMEs would likely have a better understanding of how mudharabah financing works and its potential benefits for business development.

Dominant Factor Affecting MSMEs' Low Interest in Mudharabah Financing

Overall, the dominant factors influencing the low interest of MSMEs in mudharabah financing are the limited level of Islamic financial literacy and insufficient understanding of mudharabah contracts. These two factors are further strengthened by negative perceptions regarding complexity, institutional constraints related to risk management, and the lack of adequate socialization from Islamic financial institutions. When combined, these factors create a strong barrier that discourages MSMEs from adopting mudharabah financing, even though it offers potential benefits as a profit-sharing financing model suitable for productive business development.

CONCLUSIONS AND RECOMMENDATIONS

This study concludes that the low interest of Micro, Small, and Medium Enterprises (MSMEs) in utilizing mudharabah financing is influenced by a combination of interrelated internal and institutional factors. Internal factors include limited understanding of mudharabah contracts, low Islamic financial literacy, negative perceptions regarding the complexity of profit-sharing financing, and weaknesses in financial administration and management among MSMEs. These conditions reduce MSMEs' ability and confidence to access and utilize mudharabah financing effectively. On the other hand, institutional factors such as the relatively high risk of mudharabah financing, particularly related to moral hazard and information asymmetry, as well as limited socialization and education from Islamic financial institutions, further contribute to the low utilization of this financing scheme.

Overall, the findings indicate that the dominant factors influencing MSMEs' low interest in mudharabah financing are related to insufficient financial literacy and inadequate understanding of the contract mechanism, which are reinforced by institutional constraints within Islamic financial institutions. Based on these findings, several recommendations are proposed. Islamic financial institutions are encouraged to enhance education and socialization programs related to mudharabah financing to improve MSMEs' understanding of profit-sharing principles and mechanisms. Improving Islamic financial literacy among MSMEs is also essential to strengthen their financial knowledge and decision-making ability in selecting appropriate financing products. In addition, simplification of financing procedures and improvement of administrative requirements should be considered to make mudharabah financing more accessible for MSMEs with limited financial management capacity. Finally, policymakers are expected to support the development of more inclusive Islamic financing systems by reducing institutional barriers and encouraging broader implementation of profit-sharing-based financing schemes to support sustainable MSME development.

ADVANCED RESEARCH

Islamic financial institutions and MSMEs need to enhance their financial and managerial capabilities in response to the increasing complexity of Islamic financing systems. In particular, MSMEs are required to improve their understanding of financial management, digital financial tools, and Islamic financial principles to better engage with profit-sharing financing schemes such as mudharabah. At the same time, Islamic financial institutions play an important role in supporting MSMEs through education, technological adoption, and improved financing processes to reduce information asymmetry and operational barriers. Strengthening financial literacy and institutional support is therefore essential to ensure the effective implementation of Islamic financing and to improve MSMEs' access to productive financing.

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