

THE EFFECTIVENESS OF MURABAHAH FINANCING IN IMPROVING THE WELFARE OF MSMES IN BABALAN DISTRICT

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<p>Received: 01/03/2026</p> <p>Received: 02/03/2026</p> <p>Publishing: 03/03/2026</p> <p>Correspondence*</p> <p>This work is licensed under the Creative Commons Attribution 4.0 International License.</p>	<p>Abstract - This study aims to analyze the effectiveness of murabahah financing in improving the welfare of Micro, Small, and Medium Enterprises (MSMEs) in Babalan District. MSMEs often face financial constraints such as funding mismatches, complicated credit procedures, and high transaction costs. As a solution, the Islamic banking system through murabahah contracts offers a riba-free financing scheme that is considered fairer and safer for small business actors. This research employs a qualitative descriptive approach, utilizing data analysis of MSME income levels. The results indicate that murabahah financing is effective in increasing the income and welfare of MSME actors in Babalan District. Empirical data shows that business owners who utilize murabahah financing—particularly in the culinary, service, and trade sectors—experience more significant income growth compared to those relying solely on personal capital. This increase is driven by additional working capital used for raw materials and business equipment procurement. The study concludes that access to fair Sharia financing is a key factor in encouraging business expansion and the household economic stability of MSME actors at the local level.</p> <p>Keywords: Murabahah Financing, MSME Welfare, Islamic Banking, Babalan District.</p>
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Background of the Problem

Micro, Small and Medium Enterprises are one of the main pillars of the national economy that must obtain the widest possible opportunities, support, protection, and development as a form of firm alignment with the people's economic business groups. There are several things that cause the slowdown in the increase of MSMEs to become large businesses, including: MSMEs often cannot be separated from two main problems, namely financial and non-financial (organizational management). The main financial problems are the *mismatch* between available and accessible funds and the lack of a systematic approach in funding, high transaction costs, time-consuming credit procedures even though the value of the loans disbursed is small, lack of access to formal sources of funds, credit interest for investment and working capital is quite high and many MSMEs are not yet bankable. Meanwhile, what is included in organizational management problems (non-financial) according to Adiningsih include: lack of knowledge of production technology and quality control caused by the lack of opportunities to keep up with technological developments and lack of education and training, lack of marketing knowledge, caused by limited information that can be reached by MSMEs regarding the market, in addition, due to the limited ability of MSMEs to provide products/services which is in accordance with market desires, limited human resources (HR) with a lack of resources to develop human resources, lack of understanding of finance and accounting. MSMEs are not only seen as a tool of economic production but also as an instrument of empowerment of the people who are oriented towards social welfare and justice. The support of Islamic financial institutions in providing

fair, usury-free, and transparent financing can increase financial inclusion and assist MSMEs in overcoming capital barriers, which ultimately encourages business development and the quality of life of MSME actors (Khairunnisa & Nofrianto, 2023).

However, one of the main challenges faced by MSMEs is limited access to affordable financing sources that suit their needs. On the other hand, the Islamic banking system is present as an alternative solution by offering various financing schemes that are in accordance with sharia principles, one of which is murabahah financing. *Murabahah* is one of the buying and selling contracts in Islamic banking, where banks buy goods needed by customers, then resell them with an agreed profit margin. This contract does not contain *un sur riba*, *gharar*, and *maisir*, so it is considered fairer and safer, especially for small business actors who want to avoid conventional financial practices that tend to be oppressive (Taufiqurrohman, 2020). In Babalan District, the trend of using murabahah financing by MSME actors is starting to show an increase. This cannot be separated from the increasing number of Islamic financial institutions and Islamic cooperatives operating in the area. However, it is necessary to further review how the implementation of murabahah financing actually has an impact on the welfare of MSME actors. Does this financing really help in developing businesses, increasing income, and improving the socio-economic conditions of business actors?

The effectiveness of murabahah financing certainly does not only depend on the funding aspect itself, but also on other factors such as business actors' understanding of sharia contracts, assistance from financial institutions, business managerial capabilities, and local market conditions. Therefore, it is important to conduct research that examines the extent to which murabahah financing contributes to improving the welfare of MSMEs in Babalan District. The welfare of MSME actors is a condition in which micro, small, and medium business actors are able to meet their living needs properly, have a stable income, and develop economically and socially. In the context of sharia financing, the welfare of MSMEs is influenced by their ability to obtain business capital, increase turnover, and expand production capacity, thus having an impact on increasing income and business sustainability. Research shows that sharia microfinancing, including contracts such as murabahah and mudharabah, has a positive contribution to increasing the productivity and financial independence of MSME business actors, thereby encouraging their economic welfare more comprehensively (Rumasukun & Hanifah, 2025). The welfare of MSMEs is also closely related to access to fair and affordable financing. Proper access to financing allows MSME actors to increase working capital, increase production capacity, and expand the market, thereby having an impact on increasing revenue and business sustainability. Sharia-based financing, especially murabahah, is seen as able to encourage the welfare of MSMEs because it provides margin certainty, a clear payment system, and avoids the element of usury that can burden small business actors (Widodo et al., 2022).

Table 1.1
Data on MSME Actors in Babalan District 2025

No	MSME Name	Business Type	Long Term of Effort	Murabahah Financing	Revenue Before (Rp/mo)	After-Income (Rp/mo)
1	Light Shop	Food Stalls	3 Year	Yes	4.000.000	5.800.000

2	Coffee Shop Wak Ucok	Drinks & Snacks	2 Year	Yes	5.200.000	7.200.000
3	Makmur Grocery Store	Trade	5 Year	No	6.000.000	6.300.000
4	Clean Laundry	Laundry Services	4 Year	Yes	3.500.000	4.900.000
5	Beautiful Sewing	Sewing Services	3 Year	No	2.700.000	2.900.000
6	Fried Chicken	Snacks	2 Year	Yes	3.200.000	4.600.000
7	Motor Jaya Workshop	Workshop Services	6 Year	Yes	5.800.000	7.500.000

Based on the data above, it can be seen that most MSME actors are engaged in the micro and small business sectors such as culinary, trade, and services. These sectors are the dominant type of business run by the people of Babalan District because they are relatively easy to run, require not too large capital, and have a fairly stable local market. However, limited working capital is still the main obstacle for MSME actors in developing their businesses. MSMEs that receive murabahah financing show a more significant increase in income than MSMEs that do not receive financing. This can be seen in Warung Cahaya, Wak Ucok Coffee Shop, Laundry Bersih, Gorengan Barokah, and Bengkel Motor Jaya, which experienced an increase in income after obtaining murabahah financing. The increase was due to an increase in business capital used to buy raw materials, add business equipment, and increase production capacity and service to consumers.

On the other hand, MSMEs that do not receive murabahah financing such as Makmur Grocery Stores and Beautiful Tailoring only experience a relatively small increase in income and tend to be stagnant. This shows that limited access to formal financing is one of the factors that hinder business development and the welfare of MSME actors. Business actors who do not get financing tend to rely on their own capital, making it difficult to expand their business.

This condition indicates that murabahah financing has the potential to have a positive impact on the welfare of MSMEs, especially in increasing income, business sustainability, and the ability of business actors to meet household economic needs. However, the effectiveness of murabahah financing is not only determined by the amount of funds provided, but also by MSME actors' understanding of financing contracts, business managerial capabilities, and assistance from Islamic financial institutions.

Theoretical Studies

Micro, Small and Medium Enterprises (MSMEs)

a. Definition of Micro, Small and Medium Enterprises (MSMEs)

In Indonesia, the definition of MSMEs is regulated in the Law of the Republic of Indonesia No. 20 of 2008 concerning MSMEs. Article 1 of the Law states that micro

businesses are productive businesses owned by individuals and/or individual business entities that have micro business criteria as stipulated in the Law. Small business is an independent productive economic enterprise, carried out by an individual or business entity that is not a subsidiary of a company or not a subsidiary that is owned, controlled or a part, either directly or indirectly, of a medium or large business that meets the criteria of small business as referred to in the Law.

In the Law, the criteria used to define MSMEs as stated in Article 6 are the value of net worth or the value of assets excluding land and buildings where the business is located, or annual sales results. The empowerment of Micro, Small and Medium Enterprises (MSMEs) is very important and strategic in anticipating the future economy, especially in strengthening the national economic structure. The existence of a national economic crisis due to the current pandemic greatly affects the stability of the national economy and politics, which has an impact on small and large business activities that are getting worse, while MSMEs and cooperatives are relatively still able to maintain their business activities.

Islam teaches that all business processes carried out in achieving business sustainability must be in accordance with sharia. By upholding the value of spiritual values in various aspects to the achievement of business continuity in Islamic business holding one dimension, namely rahmatan lill alamin (giving grace to all nature), providing something for the advancement of world civilization, and leading to seeking the pleasure of Allah SWT, the values in sharia principles become a kind of spirit (spirit) in every action and business transaction that occurs throughout the process.

The factor of blessings and seeking the pleasure of Allah SWT is important in achieving business continuity in business based on sharia principles. Because these principles can be used as the foundation of business orientation so that they are always within the corridor of Islamic law. There are several types of business sustainability, namely the sustainability of capital, the sustainability of human resources, the sustainability of production and the sustainability of marketing to increase the income that is pleasing to Allah. These Muslim entrepreneurs have a sense of business sustainability. Among them, there are those who argue that the ability to be in good faith towards all components that affect the running of the business, continuously in the long term to increase the income that Allah is pleased with.

b. Characteristics of Micro, Small and Medium Enterprises

Small businesses in Indonesia have great potential to be developed because the wide market, easily available raw materials and large human resources are variables that support the development of these small businesses, but it needs to be observed several things as the development of small home businesses such as: business development must be followed by good management management, good planning will minimize failure, Mastery of science will support the sustainability of the business, manage an efficient and effective production system, and make breakthroughs and innovations that make differentiating from competitors a step towards success in managing the business.

In Pandji Anoraga's book, it is explained that in general, the business sector has the following characteristics:

- 1) The bookkeeping system is relatively simple and tends not to follow the rules of standard bookkeeping administration. Sometimes the bookkeeping is not up to date, so it is difficult to assess the work of the business.
- 2) Business margins tend to be thin considering very high competition.
- 3) Limited capital.

- 4) Managerial experience in managing a company is still very limited.
- 5) The scale of the economy is too small so it is difficult to expect to be able to reduce costs to reach a point of long-term efficiency.
- 6) Marketing and negotiation capabilities and market diversification are very limited.
- 7) The ability to source funds from the lowest capital market, given the limitations of its administrative system. To get funds in the capital market, a company must follow a standard administrative system and must be transparent.

In Islam, there have been regulations for socializing between people, their relationship with Allah, rules of the game related to the law (halal-haram) in every aspect of life including business activities, so that a Muslim can always maintain his behavior and not fall into error. The following are the Characteristics of Micro Businesses According to the Perspective of Islamic Economics:

- 8) The micro business of its influence is divine/divine (nizhamun rabbaniyyun), considering that the foundations of its regulation are not laid by humans, but are based on the rules set by Allah SWT as found in the Qur'an and As-Sunnah.
- 9) Micro businesses have the dimension of faith or belief (iqtishadun aqdiyyun), considering that Islamic economics is basically born (as an expression) of the Islamic creed (al-aqidahal-Islamiyyah) in which accountability will be demanded for the creed that it believes.
- 10) With the character of ta'abbudi (thabi'abbudiyun). Considering that Islamic micro-businesses are a regulation with a divine dimension (nizham rabbani). Regarding morality (murtabthunbil-akhlaq), Islam has never predicted the possibility of a separation between morality and economy, nor has it ever mapped economic development under the protection of Islam without morals.
- 11) Elastic (al-murunah), al-murunah is based on the fact that both the Qur'an and al-Hadith, both of which are used as basic sources of economics.
- 12) Objective (al-maudhu'iyah), Islam teaches its people to act and act objectively in carrying out economic activities. Economic activity is essentially the implementation of a mandate that must be fulfilled by every economic actor regardless of gender, skin color, ethnicity, religion/belief, and others.
- 13) Realistic (al-waqi'iyah). Economic forecasting, especially business forecasting, does not always correspond between theory on the one hand and practice on the other.
- 14) Wealth is essentially the property of Allah s.w.t, in this principle contains the intention that a person's ownership of wealth (al-amwal) is not absolute.
- 15) Have the ability to manage wealth (tarsyid istikhdam al-mal).

2. The Concept of Well-Being

a. Definition of Welfare

Welfare is a measuring point for a society to be in a state of prosperity of equality of life that is more than a level of life. A person will feel prosperous in his life if he feels happy, lacks nothing within the limits he may reach, he is free from poverty and the dangers that threaten him. Welfare by some people is always associated with the concept of quality of life. The concept of quality of life is an overview of a good state of life. The World Health Organization defines quality of life as an individual's perception of his or her life in society in the context of existing culture and value systems related to goals, expectations, standards, and also

attention to life. This concept provides a broader meaning because it is influenced by the individual's Nisik condition, psychological, level of independence, and the individual's social relationship with his environment (Sirait, Sugiharto, Abidin, Padang, & Putra, 2024)

In Law of the Republic of Indonesia Number 13 of 1998, it is stated that social welfare is an order of life and social livelihood, both material and spiritual, which includes a sense of safety, decency, and inner peace that enables every citizen to fulfill the best possible needs for himself, his family and society by upholding human rights in accordance with the Pancasila (Husna, 2021).

Well-being in Economic Studies

The concept of welfare in economics refers to conditions in which individuals or communities are able to meet the needs of life properly, both material and non-material needs. According to the welfare economics approach, welfare is understood as the level of utility or satisfaction obtained by the community through efficient and fair allocation of resources. The main goal of welfare theory is to improve social welfare by considering economic efficiency, income equity, and social justice (Mankiw, 2021). Welfare is not only measured by the amount of income, but also by access to jobs, education, health, and the sustainability of economic life. In the context of Micro, Small, and Medium Enterprises (MSMEs), welfare is very closely related because MSMEs are the dominant sector in absorbing labor and providing a source of income for the community. MSMEs play an important role in improving the welfare of business actors and the surrounding community through job creation and increasing household income. Research by Krisdayanti and Dewandaru (2021) shows that the existence of MSMEs is able to improve people's welfare directly, especially in areas with limited formal employment.

The economic theory of welfare explains that social welfare will increase if economic activities are able to provide wider benefits to the community. In this case, MSMEs function as a means of distributing income more evenly because they are spread across various regions and involve middle-to-lower economic groups. This is in line with the Pareto efficiency principle, where welfare increases when an economic activity is able to improve the conditions of one party without worsening the other (Todaro & Smith, 2020). Sustainable MSME development can increase social utility through reducing unemployment and reducing poverty rates.

b. Financing Principles

Conventional financing provides lending money to those in need and taking a share of the profits in the form of interest by paying off the borrowed money. The principle is to eliminate this kind of transaction and turn it into financing by not lending a certain amount of money to the customer, but financing the customer's business. In this case, the bank functions as an intermediary of money without lending money and emptying the money. Instead, the financing of the customer's business can be done by buying the goods needed by the customer, then the bank resells it to the customer, or it can also be by including capital in the customer's business.

There are three financing principles in conducting contracts with Islamic banks, namely:

- 1) Principle of Profit Sharing

The financing facilities provided here are in the form of cash or goods valued in money. In terms of amount, it can provide up to 100% of the required capital, or it can only be partially in the form of a joint venture between banks and entrepreneurs (customers). When viewed in terms of profit sharing, there are two types of profit sharing (depending on the agreement), namely revenue sharing or profit sharing. As for the percentage of profit sharing, it is known as the ratio, which can be agreed with customers who get financing facilities at the time of the financing contract. This principle of revenue sharing is found in the following products:

Mudaharabah, which is a cooperation agreement between two parties where the first party of *sahib almal* provides all (100%) of the capital, while the other party becomes the manager. Business profits are divided according to the agreement stated in the contract, while if the loss is borne by the capital owner as long as the loss is not due to the negligence of the manager. If the loss is caused by fraud or negligence of the manager, then the manager must be responsible for the loss for a particular business where each party contributes funds (or charity/expertise) with the agreement that the profits and risks will be borne jointly in accordance with the agreement.

- a) Musyarakah, which is a cooperation contract between two parties or agricultural processing between land owners and cultivators with a profit-sharing system on the basis of harvest.
- b) Muzara'ah, which is a cooperation contract or mixing The types of muzara'ah are: muzara'ah, which is land cultivation cooperation where the seeds come from the land owner. And mukhabarah, which is land cultivation cooperation where seeds come from cultivators.

2) Buying and Selling Principle

This principle is a system that applies buying and selling procedures, where the bank will first buy the goods needed or appoint the customer as a bank agent to purchase the goods on behalf of the bank, then the bank sells the goods to the customer at a price of a certain purchase price plus profit (margin/mark-up). This principle is implemented because of the transfer of ownership of goods or objects. The bank's profit rate is set in advance and becomes part of the price of the goods traded. This principle is found in the product:

- a) *Bai' al-Murabahah*, i.e. the act of buying and selling certain goods.
In the buying and selling transaction, the seller clearly mentions the goods being traded, including the purchase price and the profit taken.
- b) *Bai' al-muqayyadah*, i.e. buying and selling in which an exchange occurs between goods and goods (barter). This kind of buying and selling application can be done as a way out for export transactions that cannot generate foreign exchange (foreign exchange).
- c) *Bai' al-mutlaqah*, i.e. the exchange between goods or services and money. Money acts as a medium of exchange. This kind of buying and selling animates all financial institution products that are based on the principle of buying and selling.
- d) *Bai' as-salam*, which is a sale and purchase contract in which the buyer pays money (as much as the price) for the goods that have been specified in

specifications, while the goods to be traded will be handed over later, namely on the agreed date.

Bai' al-istisna, which is a contract of sale and purchase in which the price of the goods is paid in advance, but can be paid in installments according to the schedule and conditions agreed upon by the same, while the goods purchased are produced and handed over later.

3) Principles of Renting

In addition to the sale and purchase contract that has been described earlier, there are also lease-lease contracts that are carried out in sharia banking. This principle consists of two types of contracts, namely: Akad ijarah, which is an agreement to transfer the right to use goods or services through the payment of rent wages without being followed by the transfer of ownership (*milkiyah*) of the goods themselves. Contract. Ijarah muntabiha bi at-tamlík, which is a type of combination of a sale and lease contract or rather a lease contract that ends with the ownership of goods in the hands of the tenant. The nature of this transfer of ownership is also indicative of ordinary ijarah .

c. Murabahah Financing

The Qur'an never directly talks about murabahah, although there are a number of references about buying and selling, profits, losses, and trade. Similarly in the hadith, there seems to be no hadith that has a direct reference to murabahah. However, this murabahah, although there is little discussion of buying and selling in fiqh books (Anugrah & Laila, 2020). Mudharabah is referred to as a business cooperation agreement between two parties, namely what occurs between the owner of the fund called *shahibul maal* and the fund manager called *mudharib*. Akad mudharabah is an investment transaction based on trust, namely the trust of the fund owner and fund manager (Purnama Sari & Sulaeman, 2021). The murabahah contract is the sale and purchase of goods at the original price with additional profits agreed between the bank and the customer. In murabahah, the seller mentions the purchase price of goods to the buyer and then requires a certain amount of profit (Basri et al., 2022). A murabahah contract is a contract to buy and sell an asset by affirming the purchase price to the buyer and the buyer pays it at a higher price as a margin. Murabahah financing is the provision of funds for the purchase of an asset by the Bank by affirming the purchase price to the customer and the customer pays it at a higher price as an agreed margin. (Widodo et al., 2022).

Research methods

The type of research used in this study is qualitative research with a descriptive analysis approach. Qualitative research is one of the research procedures that produces descriptive data in the form of speech or writing and the behavior of the people observed. Therefore, the author prefers to use a qualitative method with a descriptive approach to analysis because the data obtained directly can be presented in the form of sentences (Moelong, 2019).

Exposure of MSME Actor Data

The exposure of MSME actor data in this study was compiled based on the results of observations and interviews with five Micro, Small, and Medium Enterprises (MSMEs) actors in Babalan District. The selection of the five MSMEs is based on the suitability of the

research focus, namely business actors who obtain murabahah financing and have clear income data before and after financing. This data is used to provide an initial overview of business conditions and is the basis for analyzing the effectiveness of murabahah financing on the welfare of MSMEs.

Table 4.4
Profile of MSMEs in Babalan District

No	MSME Name	Business Type	Long Term of Effort	Murabahah Financing	Revenue Before (Rp/mo)	After- Income (Rp/mo)
1	Light Shop	Food Stalls	3 Year	Yes	4.000.000	5.800.000
2	Coffee Shop Wak Ukok	Drinks&Snacks	2 Year	Yes	5.200.000	7.200.000
3	Clean Laundry	Laundry Services	4 Year	Yes	3.500.000	4.900.000
4	Fried Chicken	Snacks	2 Year	Yes	3.200.000	4.600.000
5	MotorJaya Workshop	Workshop Services	6 Year	Yes	5.800.000	7.500.000

Based on the table above, it can be seen that the five MSMEs that are the subject of the research are engaged in the micro and small business sectors that are quite diverse, namely the culinary and service sectors. This type of business is a business that is widely run by the people of Babalan District because it has stable market needs and does not require too large initial capital.

Research Findings and Discussion

1. Implementation of Murabahah Financing for MSMEs in Babalan District

Based on the results of interviews and field observations, the implementation of murabahah financing for MSMEs in Babalan District is carried out by Islamic financial institutions through the buying and selling mechanism as described in the murabahah theory in Chapter II. In the murabahah contract, the financial institution acts as a seller who first buys goods or business needs according to the customer's request, then resells them to MSME actors at the cost of goods plus the profit margin agreed at the beginning of the contract. The implementation is in line with the concept of murabahah according to Widodo et al. (2022) which states that murabahah is a purchase and sale contract with an affirmation of the acquisition price and profit margin that are mutually agreed. From the practical side, MSME actors stated that murabahah financing provides price and installment certainty, making it easier for them to plan business finances.

However, the findings of the study also show that MSME actors' understanding of

the murabahah contract is still limited. Most business actors only understand murabahah as "installment financing" without deeply understanding the principles of buying and selling and the sharia provisions inherent in it. This condition shows that there is a gap between the theoretical concept of murabahah and the practical understanding of MSME actors, as also stated in the theoretical study that Islamic financial literacy is an important factor in the success of Islamic financing.

Based on the results of the research, the implementation of murabahah financing for MSMEs in Babalan District has generally been carried out in accordance with the basic principles of the murabahah contract as explained in the theory of sharia financing. Islamic financial institutions act as a party that provides financing by first buying goods or business needs needed by MSME actors, then reselling them to customers at a selling price consisting of the cost of goods plus the profit margin that has been agreed upon at the beginning of the contract.

The financing implementation process begins with the submission of financing applications by MSME actors to Islamic financial institutions. In this stage, the customer conveys the business needs that need to be financed, such as the purchase of equipment, raw materials, or other business support facilities. Furthermore, the financial institution conducts a business feasibility analysis which includes business aspects, payment ability, and suitability of financing objects with sharia principles. After being declared eligible, the murabahah contract is signed by both parties with an agreement regarding the selling price, profit margin, and payment term.

The implementation is in line with the murabahah theory which states that the murabahah contract is a purchase and sale contract with transparent confirmation of the cost of goods and profits, thus providing certainty for both parties. Margin transparency and installment certainty are one of the advantages of murabahah contracts compared to conventional interest-based financing. In practice, MSME actors in Babalan District tend to feel safer and more comfortable using murabahah financing because there is no change in the number of installments during the financing period.

However, the results of the study also show that the level of understanding of MSME actors towards the murabahah contract mechanism is still diverse. Some business actors only understand murabahah financing as a capital loan with an installment system, without understanding deeply the underlying concept of buying and selling. This condition shows that even though administratively and procedurally the implementation of murabahah financing is in accordance with sharia provisions, in terms of customer understanding, there is still a need to improve education so that the implementation of the contract is truly understood and carried out optimally.

2. The Effectiveness of Murabahah Financing in Improving the Welfare of MSMEs

The results of the study show that murabahah financing has a fairly high effectiveness in improving the welfare of MSMEs in Babalan District. This can be seen from the increase in business income after MSME actors receive murabahah financing. The increase in income shows that murabahah financing functions as an additional productive business capital. These findings are in line with the theory of economic well-being which states that individual welfare can increase if there is an increase in income and the ability to meet the needs of life (Mankiw, 2021). In the context of MSMEs, increasing business income has a direct impact on the welfare of business actors and their families, especially in meeting basic needs such as food, education, and health. MSMEs that obtain murabahah financing are able to expand their business scale through increasing inventory of goods, purchasing equipment, and improving the quality of

products and services. This condition is in accordance with the indicators of MSME development that have been described in Chapter II, namely business capital, sales turnover, and business sustainability. Thus, murabahah financing not only increases income, but also strengthens the business resilience of MSMEs in the medium term.

The results of the study show that murabahah financing has a significant effectiveness in improving the welfare of MSME actors in Babalan District. This can be seen from the increase in operating income in most MSMEs that obtain murabahah financing compared to MSMEs that do not receive financing. The increase in revenue was mainly due to the increase in business capital used to increase production capacity, increase product variety, and improve the quality of service to consumers.

This finding is in line with the theory of MSME development which states that business capital is one of the main factors in encouraging business growth and sustainability. With additional capital from murabahah financing, MSME actors have the flexibility to develop their businesses without having to be burdened by a fluctuating interest system. The certainty of the number of installments in murabahah financing provides a sense of security for business actors in managing their business finances, so that the income obtained can be more planned.

From the perspective of welfare theory, the increase in business income reflects the improvement of the economic welfare of MSME actors. Welfare is not only measured by the amount of income, but also by the ability of business actors to meet the needs of life, maintain business sustainability, and improve the quality of family life. Based on the results of the interview, some MSME actors stated that after receiving murabahah financing, they were able to better meet household needs and had reserve funds for future business development. However, the effectiveness of murabahah financing in improving the welfare of MSMEs is not automatic. There are several business actors who have not experienced a significant increase in welfare even though they have received financing. This is due to the use of financing funds that are not on target, such as being used for consumptive needs or not fully allocated for business development. This condition shows that the effectiveness of murabahah financing is highly dependent on the managerial ability and discipline of MSME actors in managing their businesses.

3. Supporting Factors for the Effectiveness of Murabahah Financing

Based on the findings of the study, there are several factors that support the effectiveness of murabahah financing for MSMEs in Babalan District. First, the murabahah financing system in accordance with sharia principles provides a sense of security and trust for MSME actors. This is in line with Islamic economic theory which emphasizes that transactions that are free from *riba* and *gharar* will create justice and blessings in business. Second, the certainty of profit margins and installment amounts that have been determined from the beginning of the contract makes it easier for MSME actors to manage their business finances. This certainty is in accordance with the characteristics of murabahah as described in Chapter II, where the selling price and profit margin are fixed and transparent. Third, the murabahah financing provided is mostly used for productive needs, such as working capital and the purchase of business tools. This is in line with the theory of productive financing which states that financing used for business activities will have a positive impact on the development of MSMEs and improving the welfare of business actors.

4. Factors Inhibiting the Effectiveness of Murabahah Financing

In addition to supporting factors, this study also found a number of inhibiting factors in the effectiveness of murabahah financing. One of the main factors is the low

understanding of MSME actors of the murabahah contract. This condition causes some business actors to not make optimal use of financing according to business development goals. Another inhibiting factor is the limited business assistance from Islamic financial institutions. In fact, in the theory of MSME development explained in Chapter II, mentoring and coaching are important aspects in increasing managerial capacity and business sustainability. Without adequate assistance, MSME actors tend to experience difficulties in financial management and business registration.

In addition, the low managerial ability of MSME actors is also an obstacle in maximizing the benefits of murabahah financing. This is in line with the characteristics of MSMEs which generally have a simple bookkeeping system and limited managerial experience. Fluctuating local market conditions also affect income stability, thus having an impact on the effectiveness of financing in improving welfare.

Conclusion

Based on the results of the research and discussions that have been carried out, it can be concluded that several things are as follows:

1. The implementation of murabahah financing by Islamic financial institutions to MSMEs in Babalan District has generally been carried out in accordance with sharia principles, namely through a buying and selling mechanism with the determination of the cost of goods and profit margins agreed at the beginning of the contract. The financing process includes applying for financing, fulfilling administrative requirements, signing a murabahah contract, and disbursing funds for the purchase of goods or business needs. However, there are still some MSME actors who do not fully understand the mechanism of murabahah in depth, so its implementation has not been optimally utilized for business development. The effectiveness of murabahah financing in improving the welfare of MSMEs in Babalan District can be said to be quite effective, especially in increasing the income and business sustainability of MSME actors. This can be seen from a more significant increase in income for MSMEs that receive murabahah financing compared to MSMEs that do not receive financing. The additional business capital from murabahah financing is used for the purchase of raw materials, additional equipment, and increasing production and service capacity, which ultimately has a positive impact on the economic welfare of MSME actors.
2. The supporting and inhibiting factors that hinder the effectiveness of murabahah financing for MSMEs in Babalan District consist of several aspects. Supporting factors include ease of access to sharia financing, certainty of margins and installments, as well as the suitability of murabahah contracts with sharia principles that provide a sense of security for MSME actors. The inhibiting factors include the limited understanding of MSME actors towards the murabahah contract, low business managerial skills, suboptimal assistance and coaching from Islamic financial institutions, and the influence of market conditions and the business environment. These factors affect the success rate of the use of murabahah financing in improving the welfare of MSMEs. Overall, murabahah financing is effective in improving the welfare of MSMEs in Babalan District, but its optimization still requires increasing understanding of contracts, managerial skills of MSME actors, and assistance from Islamic financial institutions.

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