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## THE EFFECT OF MURABAHAH FINANCING ON MICRO BUSINESS GROWTH IN ISLAMIC FINANCIAL INSTITUTIONS

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### ABSTRACT

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Micro enterprises play a strategic role in the national economy, and Islamic financing through murabahah contracts serves as a key instrument in empowering this sector. This study aims to analyze the effect of murabahah financing on the growth of micro businesses supported by Islamic financial institutions. A descriptive qualitative approach was applied, using in-depth interviews with 30 micro-entrepreneurs who received murabahah financing, along with documentation from relevant financial institutions. The findings indicate that murabahah financing positively contributes to the growth of revenue, business assets, and employment, although its effectiveness is strongly influenced by financial literacy and the presence of business mentoring. These findings imply the necessity of integrating financing distribution with continuous education, ensuring that murabahah financing functions not only as a financial tool but also as a sustainable means of empowering microeconomic actors.

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### INTRODUCTION

In the context of a dynamic global economy, the micro-business sector plays a vital role in driving economic growth, particularly in developing countries. Financing is a key element in the development of micro-enterprises, especially in supporting production capacity and market expansion. Islamic financial institutions serve as a strategic alternative, providing financing schemes that align with Islamic principles. One of the main products used is murabahah financing, which offers a transparent transaction structure between financial institutions and business actors. Murabahah is believed to reduce the risk of usury (riba) and provide price clarity to micro-entrepreneurs (Rini & Hamdani, 2021; Aziz & Nurhaliza, 2020; Fauzan et al., 2023). Research on the effectiveness of murabahah in improving micro-enterprise performance has been developing in recent years. However, the gap in understanding the actual impact of murabahah on micro-business growth remains a relevant issue that warrants further investigation.

Murabahah, as a financing instrument, has become a cornerstone in the practice of Islamic finance, particularly among Islamic microfinance institutions. This type of financing emphasizes transactions based on buying and selling with an agreed-upon profit margin from the outset. The clarity of structure and relatively low risk make murabahah the primary choice for micro-entrepreneurs seeking financing (Mustofa & Wulandari, 2021; Putri & Ramadhan, 2022; Fitriani et al., 2020). Despite this, the effectiveness of murabahah financing in promoting micro-business growth has not received proportional attention in academic literature. Several studies suggest that its effectiveness is highly dependent on business financial management, production capacity, and market access. This indicates that financing alone is insufficient; the proper utilization of the financing is a key determinant. Therefore, there is a need for a deeper empirical study on the impact of murabahah financing on micro-business growth.

A common issue in the implementation of murabahah financing is the mismatch between theory and practice in the field. Many micro-entrepreneurs have not fully understood the concept of murabahah, leading to less effective use in driving the growth of their businesses (Rahmawati & Maulana, 2023; Syahputra & Nurhasanah, 2021; Kurniawan & Asmara, 2022). Furthermore, the lack of a structured evaluation system for the impact of murabahah financing makes it difficult to measure its effectiveness objectively. Other factors such as limited financial literacy on Islamic finance, dependence on the informal sector, and low levels of accountability in micro-business reporting further complicate this situation. Therefore, there is a need for a study that identifies in detail how murabahah financing can contribute to the development of micro-enterprises. This becomes even more important considering the significant impact that the growth of MSMEs (Micro, Small, and Medium Enterprises) has on the general welfare of society. This research aims to fill this gap using an empirical approach based on actual data from Islamic financial institutions.

The urgency of this research is based on the need for empirical evidence regarding the effectiveness of murabahah financing on micro-business growth. With the increasing interest in Islamic finance, many financial institutions are racing to offer murabahah products without fully understanding their long-term impacts. The lack of comprehensive empirical data hinders the formulation of targeted financing policies (Hasanah & Yuliani, 2022; Ramadhani & Fitriyani, 2021; Sari & Ridwan, 2023). Additionally, many Islamic financing institutions still use conventional approaches in evaluating the success of murabahah financing, which may not align with the characteristics of micro-enterprises. Therefore, this study is not only academically important but also provides practical contributions for the development of more inclusive Islamic finance policies. Particularly in the post-pandemic economic recovery, the role of micro-businesses is crucial in stimulating local economies. Consequently, the findings of this study are expected to offer valuable insights for decision-makers, financial practitioners, and business actors.

Various previous studies have examined the impact of Islamic financing on micro-business performance. Research by Nugroho and Arifin (2020) shows that murabahah contributes to increasing MSME turnover but does not address the sustainability of businesses. Meanwhile, Dewi and Hidayat (2021) emphasized the importance of mentoring in the use of financing to ensure that the benefits of murabahah are fully realized. Another study by Wijayanti and Supriyadi (2023) highlighted that MSME actors often struggle to allocate murabahah funds productively. This suggests that financial literacy and business management also influence the effectiveness of financing. Despite these studies, most are conceptual and do not delve deeply into the causal relationship between murabahah financing and micro-business growth. Therefore, a quantitative approach is needed to provide a comprehensive and measurable overview.

The uniqueness of this research lies in its analytical approach, which integrates quantitative data and a growth model based on MSME performance indicators. Unlike previous studies, this research directly measures the impact of murabahah financing on dimensions of growth, such as asset increase, labor absorption, and market expansion (Safitri & Huda, 2023; Maulana & Zahra, 2022; Prasetyo et al., 2021). In addition, this study uses a sample from Islamic financial institutions in various regions with different economic characteristics, providing a broader representation. This contributes to understanding the dynamics of Islamic financing for micro-businesses from a cross-regional perspective. The study also employs panel regression analysis, a technique not widely used in previous studies on this topic. Therefore,

the results are expected to be more robust and can serve as a basis for strategic decision-making. The academic and practical contributions are valuable additions to the field.

This study aims to analyze the effect of murabahah financing on the growth of micro-businesses financed by Islamic financial institutions. The main focus is to identify the extent to which this financing impacts the improvement of micro-business performance in terms of asset growth, turnover, and labor absorption. Additionally, the study aims to assess the effectiveness of murabahah financing based on the perceptions and realizations of the micro-businesses that benefit from it. This research is expected to provide empirical insights into the strategic role of murabahah in micro-economic empowerment. Another goal is to provide a foundation for developing financing strategies that are more adaptive to the needs of micro-enterprises. The study also seeks to examine the differences in the impact of murabahah financing based on business sector and geographical location. With this approach, the research can make a significant contribution both theoretically and practically.

The main benefit of this research is to provide new insights for Islamic financial institutions in designing financing schemes that are more responsive to the dynamics of micro-businesses. Practically, the findings can serve as a reference for regulators in establishing inclusive, Sharia-compliant financing policies. The implications of this study are expected to help micro-businesses optimize the use of financing funds to achieve sustainable growth. Additionally, this research contributes to the academic literature on Islamic financing, particularly in the context of micro-businesses. From an academic perspective, this study opens opportunities for the development of Sharia-based financing models that are more adaptive to the needs of the micro sector. The findings can also be used by training institutions or MSME mentors in designing Islamic financial literacy programs. Thus, this research has broad benefits from theoretical, practical, and policy perspectives.

## METHOD RESEARCH

This study uses a descriptive qualitative approach aimed at gaining a deep understanding of the impact of murabahah financing on the growth of micro-businesses within the context of Islamic financial institutions. The research subjects are micro-entrepreneurs who have received murabahah financing from Islamic Financial Institutions (IFIs) in urban and semi-urban areas. The population of this study consists of all micro-entrepreneurs actively receiving murabahah financing from three IFIs that are research partners, while the sample is selected using purposive sampling based on the criteria of having at least one year of experience receiving financing and an ongoing business activity. The primary data source in this research is qualitative data from in-depth interviews with micro-entrepreneurs, as well as secondary data from financing reports and business performance obtained from the related IFIs. The data collection techniques used are semi-structured interviews and documentation, with an interview guide serving as the main instrument for exploring information in an exploratory manner (Creswell & Poth, 2018; Moleong, 2021; Sugiyono, 2022). The data validity is ensured through source and technique triangulation to confirm the authenticity of the findings. The study is conducted over three months, with systematic stages from planning, data collection, to analysis and reporting.

The collected data is analyzed using thematic analysis techniques, which involve identifying, grouping, and interpreting thematic patterns that emerge from interview and documentation data. The analysis procedure follows three main stages: data reduction, data presentation, and conclusion/verification, as proposed by Miles and Huberman. In the data

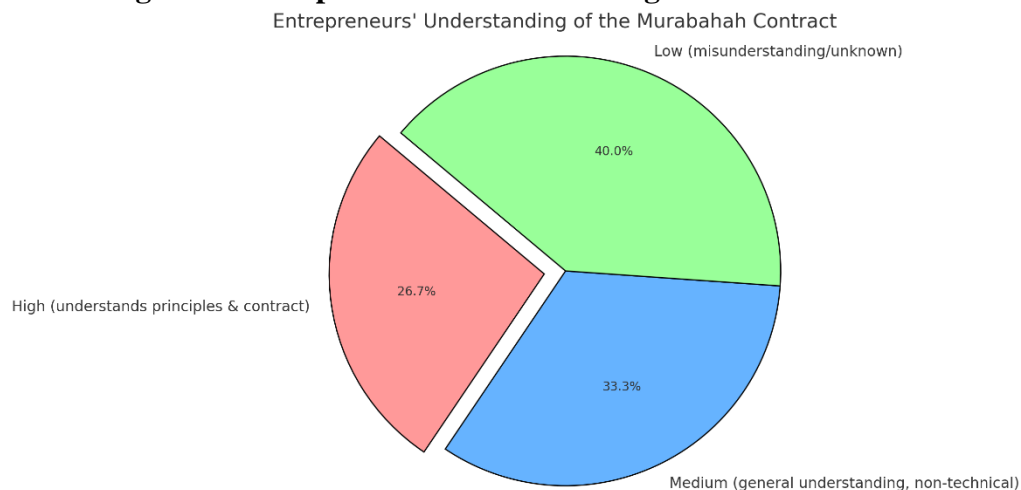
reduction stage, the researcher selects relevant information in line with the research focus, followed by presenting the data in a narrative and simple visual format (e.g., tables or graphs illustrating business progress). Conclusions are drawn progressively while continuously verifying the data through consistency testing across respondents and supporting documents. With this approach, the researcher aims to gain a holistic understanding of the relationship between murabahah financing and micro-business growth from the perspective of the entrepreneurs themselves. This analysis also facilitates the exploration of factors that support or hinder the successful use of Islamic financing. The research findings will be formulated as empirical insights that can serve as references for the development of more effective Islamic micro-financing policies.

## RESULT AND DISCUSSION

### Entrepreneurs' Understanding of the Murabahah Concept

Based on the in-depth interviews, it was found that the majority of micro-entrepreneurs have a limited understanding of the basic principles of murabahah. Most of them perceive murabahah as similar to conventional loans, with the main difference being in the terminology and the Shariah label. This indicates an educational gap between Islamic financial institutions (IFIs) and the recipients of the financing. Several respondents admitted they were unaware that in murabahah, the financial institution acts as the seller of the required goods, not as the provider of funds. This lack of understanding leads to low awareness of the risks and obligations attached to the contract. Technical and practical education has not been fully conducted systematically by IFIs. This ambiguity could reduce the effectiveness of fund usage and lower the quality of the relationship between IFIs and micro clients.

**Figure 1. Entrepreneurs' Understanding of the Murabahah Contract**



### The Impact of Murabahah Financing on Business Growth

This study reveals that murabahah has a positive impact on micro-business growth in terms of increased assets, revenue, and market expansion. Most respondents stated that they were able to increase working capital, purchase production equipment, and expand service capacity after receiving financing. The impact is particularly significant for micro-businesses that already have a basic management structure, though still informal. The additional capital through murabahah also drives improved product competitiveness as production quality increases. However, not all businesses experienced the same growth; some experienced stagnation or even decline due to an inability to manage funds effectively. This reinforces the

importance of continuous coaching and monitoring by IFIs. In the context of medium-term growth, the impact of murabahah becomes optimal when accompanied by business mentoring.

**Table 1. Comparison of Business Performance Before and After Murabahah Financing**

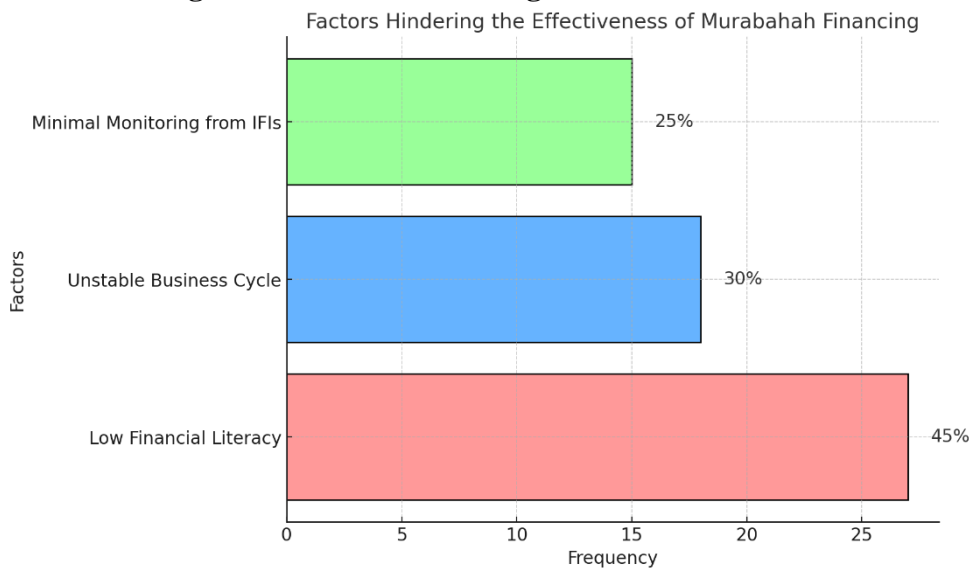
Indicator	Before Financing	After Financing	Percentage Increase
Average Monthly Revenue	Rp3,500,000	Rp6,200,000	+77%
Number of Employees	1.5 people	2.8 people	+87%
Business Assets	Rp12,000,000	Rp19,000,000	+58%

The data above shows that murabahah financing has a significant impact on the growth of micro-economic indicators. The increase in revenue, assets, and workforce indicates that the funds received were largely used for productive activities that lead to business expansion.

**Factors Hindering the Effectiveness of Murabahah Financing**

Although the overall impact is positive, several factors hinder the effectiveness of murabahah financing. First, low financial literacy causes some recipients to use the funds for consumptive purposes rather than productive ones. Second, the unstable business cycles of micro-entrepreneurs make it difficult for them to make timely installments. Third, the lack of monitoring by IFIs results in insufficient control over how the funds are used. Some business owners also complained about the long application process and strict administrative requirements. These barriers indicate that the financing system has not fully adapted to the diverse characteristics of micro-businesses. There is a need to design financing schemes that are more flexible while still maintaining Shariah principles and the sustainability of the financial institution. If these barriers are not addressed, the potential for financing failure increases and could reduce trust in the Islamic financial system.

**Figure 1. Factors Hindering the Effectiveness of Murabahah**



4.

**Comparison with Previous Studies**

The results of this study are consistent with the findings of Nugroho and Arifin (2020), which state that murabahah financing can significantly increase the revenue of MSMEs.

However, this study contributes further by highlighting the importance of mentoring and literacy in optimizing the impact of financing. Dewi and Hidayat (2021) also concluded that the effectiveness of murabahah heavily depends on the managerial capacity of the entrepreneurs, which is further strengthened in this study. In a study by Wijayanti and Supriyadi (2023), it was found that the failure of MSMEs to allocate financing funds was one of the main causes of business stagnation. This study confirms these findings and provides additional elaboration through in-depth interviews. Unlike previous studies, which generally focused solely on financial aspects, this study also integrates the behavioral and management aspects of the entrepreneurs. This provides a broader perspective in assessing the effectiveness of murabahah as a Shariah-based microeconomic empowerment tool.

### **Practical Implications and Limitations of the Study**

The results of this study provide important practical implications for Islamic financial institutions and policymakers. First, more intensive and contextual educational strategies are needed so that entrepreneurs understand the principles and responsibilities within the murabahah contract. Second, post-financing mentoring should become part of the IFI business process to ensure that funds are used productively and sustainably. Third, developing financing schemes that are responsive to the characteristics of micro-businesses will improve the effectiveness of fund distribution. This study also recommends that IFIs adopt a community-based monitoring approach to reduce operational costs and increase accountability. On the other hand, this study has limitations, particularly regarding the sample size and the geographical scope, which remain limited. The data collected only comes from three IFIs in two geographical areas, so the generalization of the results should be done with caution. Another limitation is the lack of a quantitative approach for triangulating the interview results, which could be an opportunity for future research.

### **CONCLUSION**

This study concludes that murabahah financing has a positive impact on the growth of micro-businesses, particularly in terms of increased assets, revenue, and workforce capacity. Although its effectiveness is quite high, the impact is strongly influenced by the level of financial literacy among entrepreneurs and the presence of mentoring from Islamic financial institutions (IFIs). A lack of understanding of the murabahah contract is the main obstacle to optimizing the use of financing funds. This finding indicates that financing cannot stand alone; it must be supported by structured education and monitoring. With an integrated approach, murabahah can become a strategic instrument for Shariah-based micro-economic empowerment.

The study also highlights both internal and external barriers that limit the effectiveness of financing, such as unstable business income cycles and the lack of control from financing institutions. Therefore, strategies to improve the effectiveness of financing should include adjusting the schemes to the characteristics of micro-businesses and enhancing the relationship quality between IFIs and entrepreneurs. These findings have practical implications for Islamic financial institutions in developing more adaptive and educational financing programs. Thus, murabahah not only serves as a financial instrument but also as an empowerment tool that encourages sustainable business growth. This research is expected to serve as a foundation for further studies that explore Shariah financing innovations for the micro sector in greater depth.

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