Journal of Islamic Business Economics and Sharia Tourism,
Vol. 01, No. 1 (2025): Juni, pp. 8 - 12
Edumedia Solution, Indonesia

The Effectiveness of Mudharabah Financing in Improving Micro Business Empowerment in Ponorogo Regency

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ARTICLE INFO

Article history
Received : 5 April 2025
Revised : 12 May 2025
Accepted : 30 Juny 2025

Keywords
Mudharabah Financing,
Micro Enterprises,
Empowerment

ABSTRACT

This study aims to examine the effectiveness of mudharabah financing in increasing the empowerment of micro businesses in Ponorogo Regency. The research method used in this study is a descriptive qualitative method. The data source used is secondary data obtained from the literature by studying, understanding, and identifying journals or books or other sources relevant to the research. Many micro businesses find it difficult to develop due to limited capital, with mudharabah financing being a sharia loan solution whose profit-sharing system, so it is expected to be fairer and more appropriate to help micro business actors. The results of this study show that: 1) Micro businesses in Ponorogo have great potential to develop and make a significant contribution to the regional economy. 2) Mudharabah financing plays an important role in the sharia economic empowerment instrument which plays a role in increasing financial inclusion and alleviating poverty. 3) lack of understanding of the public and business actors about the concept of mudharabah, unfair profit-sharing ratio, high level of business risk, and regulatory uncertainty. It is a challenge in the implementation of mudarabah financing.

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are a very important business sector in the Indonesian economy, especially micro businesses owned by individuals and small-scale business entities. While Micro business is an economic activity carried out by an individual or business entity on a smaller scale than a medium business, and is not part of a parent company or branch. Micro businesses in Ponorogo Regency are experiencing quite good growth. Based on data from the Central Statistics Agency (BPS), the number of MSMEs increased from 31,328 units in 2019 to 39,650 units in 2022, with an average annual growth of around 8.16%. This increase reflects the ability of micro business actors to adapt and survive. However, although the number of micro businesses continues to grow, this growth has not made a significant contribution to GDP per capita. This condition indicates the need to increase productivity and operational efficiency so that micro businesses can have a greater economic impact on the region (Rahayu, 2023).

One of the main challenges faced by micro business actors in Ponorogo is limited access to financing. Many micro enterprises have difficulty obtaining capital from conventional financial institutions due to complex and inflexible requirements, including collateral needs that are difficult to meet (Watts, 2024). This condition hinders the development of micro businesses which actually have great potential to encourage local economic growth. To overcome this obstacle, financing based on sharia principles, especially mudharabah, emerged as an effective solution and in accordance with Islamic economic values.

Mudharabah is a form of sharia financing that uses the principle of profit sharing between capital providers (shahibul maal) and business actors (mudharib). In this scheme, business profits are divided according to the agreed ratio, while the risk of capital loss is borne by the capital provider as long as it is not due to the negligence of the business actor (Ridzqullah, 2025). In Ponorogo, financial institutions such as BMT Surya Mandiri Ponorogo acting as a provider of capital (shahibul maal), while micro business actors (mudharib) run a business. The profits from the business will be divided based on the initial agreement, and if the loss is not due to mudharib's negligence, then the capital loss is borne by the capital provider. BMT Solar Independent in Ponorogo, has offered this mudharabah financing product to micro business actors (Humaidillah, 2020). With the principle of sharia-compliant profit-sharing, this financing becomes more accessible because it does not require burdensome collateral like conventional loans. This financing not only provides access to capital, but also encourages financial independence and welfare for micro business actors, in line with sharia economic values.

METHOD

This study uses a qualitative research method with a literature study and secondary data that aims to understand the effectiveness of mudharabah financing in empowering micro businesses in Ponorogo Regency. In this study, the data source used is secondary data obtained through the study of the literature, namely by studying, understanding, and identifying various scientific journals, books, and other relevant sources as the basis for theory and comparative analysis. The theoretical foundations used include sharia financing theory which explains the principle of partnership in mudharabah, micro business empowerment theory which highlights business capacity building, and program effectiveness theory to assess the success of financing in achieving empowerment goals. The collected data was then analyzed in a qualitative descriptive manner by identifying the main themes, thus producing a comprehensive understanding of the role of mudharabah financing in supporting the development of micro businesses in Ponorogo Regency.

RESULT AND DISCUSSION

Characteristics of Micro Businesses in Ponorogo Regency

Micro businesses in Ponorogo Regency have their own characteristics, where most of them are managed independently by individuals or involve family members. The scale of production carried out is still relatively small, with limited capital support. The majority of business actors have not implemented a neat financial recording system and do not have formal business legality. This condition causes them to experience obstacles in accessing financing sources from official financial institutions such as banks or cooperatives. In addition, the relatively low level of education among business actors also affects the quality of overall business management. These limitations have an impact on the weak ability to develop product innovations, implement effective management strategies, and adapt to market changes. Therefore, the main challenge faced by micro businesses in Ponorogo lies not only in the capital aspect, but also in strengthening the capacity of human resources and a more structured business system (Saputri, 2022).

Products produced by micro businesses in Ponorogo often do not meet market standards, both in terms of quality, packaging design, and completeness of legality such as distribution permits and halal certification. This makes these products less able to compete in the wider market, especially outside the local area. In addition, the marketing strategies used by business actors are still very conventional and have not made optimal use of digital technology. As a result, marketing reach becomes very limited and opportunities to expand the market outside the region become difficult to achieve. In fact, Ponorogo has the potential for very diverse and unique local wealth, such as the center of the pottery industry, the bakery industry in Kalimalang, the jenang industry, and typical art products such as reog which have a high selling value if managed properly. However, the great potential possessed by Ponorogo Regency has not been fully maximized because there are still various fundamental obstacles (Muthoharoh, 2025).

Some of them are the low credibility of the business in the eyes of financial institutions, the lack of assistance in the digital transformation process, and the lack of continuous training and coaching for micro business actors. Therefore, an integrated and sustainable development strategy is needed, which involves the active role of local governments, business actors, and the community. Good collaboration between parties can encourage increasing the capacity of human resources, improving the financial recording system, expanding access to capital, and optimizing the use of digital technology to expand market reach and increase the competitiveness of local products. With targeted and sustainable efforts, micro businesses in Ponorogo have a great opportunity to develop and make a significant contribution to the regional economy (Mujahidah, 2025).

Concept and Implementation of Mudharabah Financing for Micro Enterprises

Mudharabah financing is one of the instruments in Islamic finance which is based on the principle of partnership between capital owners (shahibul maal) and business managers (mudharib), where capital owners provide funds, while managers run businesses with their expertise and energy. Profits are divided according to the initial agreement (ratio), while losses are fully borne by the capital owner, as long as there is no negligence on the part of the management. This scheme is a fair and interest-free financing alternative, so it is very relevant for micro businesses that generally have limitations in accessing conventional financing. In addition to providing a space for mutually beneficial collaboration, mudharabah also encourages sustainable business performance improvement and contributes to strengthening the sharia-based economy (Ma'ruf and Cahyoningtyas, 2023).

The implementation of mudharabah financing also prioritizes the principle of mutually beneficial cooperation and avoidance of riba and uncertainty (gharar). Financial institutions such as BMT play a role as fund managers that distribute capital to micro business actors with the aim of improving community welfare through productive business development (Waluyo and Sujarwo, 2018). Overall, mudharabah financing has great potential as a financing instrument that supports the development of micro businesses. However, the success of its implementation is highly dependent on compliance with sharia principles, increasing Islamic financial literacy, strengthening the appropriate profit-sharing system, and continuous assistance and supervision from financial institutions and the government.

Mudharabah financing is one of the strategic instruments in the sharia economy that plays an important role in expanding financial inclusion and supporting poverty alleviation, especially for low-income groups. In this contract, the owner of the fund (shahibul maal) distributes capital to business managers (mudharib) who are in charge of carrying out business activities. The profits obtained are divided according to the proportion (ratio) that has been agreed upon in advance, while in the event of a loss, it is fully the responsibility of the capital owner, unless it is caused by negligence or violation on the part of the manager. This scheme not only creates fairness in the distribution of revenues, but also provides access to more friendly financing and in accordance with sharia principles for small business actors (Rismanto, 2025).

This financing provides access to business capital without interest charges, thereby reducing financial risks for micro and small business actors. Thus, mudharabah financing helps people develop their businesses in a sustainable manner and improve economic welfare. In addition, Islamic financial institutions through mu dharabah financing also carry out very strategic social and economic functions, including assistance to customers so that the business run is successful and financing can be sustainable (Nurhasanah, 2010).

Obstacles and Challenges in the Implementation of Mudharabah Financing

The implementation of mudharabah financing in banks and Islamic financial institutions faces various obstacles and challenges that are quite difficult, both in terms of financing providers and business actors, especially micro businesses. One of the main obstacles that is often found is the lack of a deep understanding from the public and business actors about the basic concept and mechanism of the mudharabah contract itself. The low level of Islamic financial literacy has the potential to cause various problems, ranging from misunderstandings in the implementation of contracts, misuse of financing funds, to business failures that ultimately harm both parties. This shows that education and socialization about the principles of sharia financing are still very much needed so that business actors can carry out contracts correctly and in accordance with sharia (Sodik and Ridwan, 2023)

In addition, determining the profit-sharing ratio between capital owners and business actors is a challenge in the implementation of mudharabah financing. The process of assessing each party's contribution in business is not always easy and objective, so if the profit sharing ratio is not agreed fairly and transparently from the beginning, this can lead to dissatisfaction and conflict in the future (Nurbadruddin, 2010). The high level of business risk is one of the main obstacles in the implementation of mudharabah contracts. In this scheme, the potential loss is fully borne by the capital owner (shohibul maal), while the business partner (mudharib) only bears the losses in terms of the time and energy that has been poured out. This imbalance of responsibility for losses raises concerns for Islamic financial institutions. As a result, many financial institutions prefer to use other contracts that are considered to have a more controlled level of risk, such as murabahah (buying and selling with a profit margin) or ijarah (renting and renting), because these contracts provide certainty of profits and better protection against the risk of loss.

In micro businesses, business actors do not have a good and structured financial recording system, making it difficult for financial institutions to accurately assess the feasibility of financing. Information asymmetry between banks and business actors is a serious problem, because limited data and business transparency can lead to higher financing risks. In addition, the phenomenon of side streaming, namely the use of financing funds for purposes outside of the agreed business objectives, is no less important. This practice poses a risk of moral hazard that can interfere with the success of financing and cause losses for capital owners. Therefore, effective supervision and assistance are needed to minimize these risks (Umam, Farah, Imam, Roslan, 2023).

The implementation of mudharabah financing faces various challenges that are not only related to technical and management aspects, but also include ethical issues and understanding of sharia law. Therefore, a comprehensive approach and good cooperation between various parties, such as financial institutions, government, and the community are needed (Hutagalung and Firdaus, 2024). Increasing Islamic financial literacy in a sustainable manner is crucial in strengthening public understanding of mudharabah contracts. A deep understanding of the mechanism and basic principles of this contract is needed so that its implementation can run optimally. In addition, the existence of clear and firm regulations is very important to create a sense of security and legal certainty for all parties involved. No less important, the existence of a regular mentoring and supervision system for business actors is a supporting factor so that financing funds are really used in accordance with the purpose and remain within the corridor of sharia principles. With the right implementation, mudharabah contracts have great potential to become a financing instrument that supports sharia economic growth while strengthening the empowerment of micro and small businesses in a sustainable manner.

CONCLUSION

Micro businesses in Ponorogo Regency have distinctive characteristics, namely being managed individually or involving families with limited production scale and relatively small capital. The lack of business legality and unstructured financial records cause business actors to experience difficulties in accessing financing from formal financial institutions. In addition, the low level of education and business literacy has an impact on the quality of business management, product competitiveness, and adaptability to market developments. Although Ponorogo has a wealth of local potential, such as the handicraft industry and regional specialties, various fundamental obstacles cause this potential to not be optimally utilized.

In order to strengthen the micro business sector, mudharabah financing from Islamic financial institutions is present as an alternative to financing based on the principles of justice and profit sharing. This scheme provides interest-free access to capital and encourages collaboration between capital owners and business managers. However, the implementation of mudharabah contracts still faces various challenges, including low Islamic financial literacy, weak business registration systems, and high risks of using funds that are not in accordance with the purpose. Therefore, synergy is needed between the government, financial institutions, and the community in providing education, assistance, and supervision in a sustainable manner so that mudharabah financing can be carried out optimally and contribute to the empowerment of micro businesses in Ponorogo.

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