

Phenomenological Analysis of Sharia Financing on the Growth of Micro, Small, and Medium Enterprises (MSMEs) in the Halal Sector

Edi Purwanto^{a, 1*}

¹ Universitas Negeri Surabaya, Indonesia

Email: ^{a*}edipurwanto@mhs.unesa.ac.id

*edipurwanto@mhs.unesa.ac.id

DOI: [xxxx](#)



ABSTRACT

Keywords:

Islamic Financing;
Halal MSMEs;
Phenomenology;
Business Growth;
Partnership;

This qualitative research aims to explore in depth the influence of Islamic financing on the growth of MSMEs in the halal sector, with a focus on the mechanisms, non-financial benefits, challenges, and perceptions of business actors. This research uses a phenomenological approach. Data were collected through in-depth interviews with 12 MSME owners in the halal sector (food, fashion, cosmetics) who are customers of Islamic banks and BMTs, as well as 4 representatives from Islamic financial institutions. Data were analyzed using thematic analysis techniques. The results of the study revealed five main themes: (1) Islamic financing acts as a catalyst for business expansion and increased production capacity; (2) Partnership contracts (*musyarakah/mudharabah*) create closer partnership relationships and provide added value in the form of mentoring; (3) Value congruence between Islamic principles in business and financing creates inner peace and spiritual motivation; (4) Limited Islamic financial literacy is an obstacle in utilizing non-*murabahah* contracts; (5) Mentoring from LKS is a key factor that strengthens the positive impact of financing. This research provides a rich and in-depth perspective from the perspective of business actors, revealing qualitative aspects such as spiritual motivation and the strength of partnership relationships that are often overlooked in quantitative approaches. These findings are important for the development of a more effective and sustainable growth-oriented sharia financing model.

Article Info:

Submitted:
22/09/2025
Revised:
20/10/2025
Published:
30/11/2025



This work is licensed under a [Creative Commons Attribution-ShareAlike 4.0 International License](#) (CC BY-SA 4.0)

How to cite: Purwanto, Edi. (2025). Phenomenological Analysis of Sharia Financing on the Growth of Micro, Small, and Medium Enterprises (MSMEs) in the Halal Sector. *JSPHR: Journal of Social Philanthropy and Halal Research*, 2(2), 24-

INTRODUCTION

Indonesia has emerged as one of the most strategic actors in the global halal industry due to its status as the country with the largest Muslim population in the world. The rapid expansion of the halal economy has transformed halal products and services from purely religious necessities into major components of international economic development. The Global Islamic Economy Report consistently ranks Indonesia among the leading countries in the development of the global Islamic economy ecosystem. This transformation reflects the growing integration between Islamic values, consumer behavior, and global market dynamics. Scholars argue that the halal industry today represents not merely a religious market segment, but a multidimensional economic system connected to trade, finance, tourism, fashion, pharmaceuticals, and digital innovation (Wilson, 2015: 24).

The development of the halal industry has increasingly positioned Indonesia as a potential global halal production hub. The halal ecosystem now encompasses diverse sectors such as halal food, Islamic finance, modest fashion, halal tourism, cosmetics, pharmaceuticals, media, and digital platforms. This industrial diversification has contributed significantly to national economic growth and employment creation. Within this ecosystem, micro, small, and medium enterprises (MSMEs) function as the backbone of productive economic activities because they dominate the domestic business structure. According to recent studies, MSMEs contribute substantially to strengthening the resilience and sustainability of Indonesia's halal economic ecosystem (Khan & Haleem, 2021: 212).

Despite their strategic contribution, halal MSMEs continue to face numerous structural and operational challenges that hinder their competitiveness and sustainability. One of the most persistent obstacles concerns limited access to financing and productive capital. Many halal MSMEs experience difficulties in obtaining affordable financing due to administrative barriers, collateral requirements, and limited financial literacy. Furthermore, the necessity to comply with halal standards throughout the halal value chain often increases production costs and operational complexity. Research by Rizal and Azmi demonstrates that halal certification compliance, halal supply chain management, and production standardization significantly increase the financial burden on small enterprises (Rizal & Azmi, 2022: 88).

In this context, Islamic banking institutions play a crucial role in supporting the development and sustainability of halal MSMEs. Islamic banks operate based on sharia principles that emphasize justice, transparency, ethical business conduct, and risk-sharing mechanisms. Unlike conventional financial systems that rely heavily on interest-based transactions, Islamic financing avoids elements of *riba*, *gharar*, and *maisir*. Financing contracts such as *murabahah*, *mudharabah*, *musyarakah*, and *ijarah* provide alternative financing models that are theoretically more aligned with the needs of productive sectors. Scholars explain that Islamic finance possesses strong potential to promote inclusive economic growth while simultaneously strengthening social justice and ethical business practices (Ascarya, 2021: 54).

From a theoretical perspective, Islamic financing introduces a fundamentally different paradigm compared to conventional financing systems. Conventional banking theory generally prioritizes profit maximization and collateral-based risk management, whereas Islamic economic theory emphasizes risk-sharing, partnership, and linkage with real economic activities. Profit-and-loss sharing mechanisms within *mudharabah* and *musyarakah* contracts are expected to create more equitable economic relationships

between financial institutions and entrepreneurs. In addition, Islamic financing is designed to encourage productive investment and reduce speculative economic behavior. According to Chapra, Islamic finance aims to create a balanced economic system that integrates material prosperity with social and spiritual well-being (Chapra, 2016: 119).

Nevertheless, the penetration of Islamic banking financing into the MSME sector in Indonesia remains relatively low despite the substantial growth of Islamic financial institutions. Data from Bank Indonesia indicate that Islamic bank financing contributes only a limited portion of total national MSME financing. This condition reveals a significant gap between the enormous potential of Islamic finance and its practical contribution to productive halal sectors. Many halal MSMEs still rely on informal financing mechanisms or conventional financial institutions due to easier access and more flexible administrative procedures. Studies suggest that institutional inefficiency and limited outreach remain major constraints in expanding Islamic financial inclusion among MSMEs (Hosen & Rahmawati, 2021: 97).

Previous research has consistently demonstrated that Islamic financing can positively influence the growth and sustainability of MSMEs. Hosen and Rahmawati found that profit-sharing financing mechanisms improve operational efficiency and reduce financial burdens among small-scale entrepreneurs because they are not exposed to fixed interest obligations (Hosen & Rahmawati, 2021: 102). Similarly, Sari and Fitriani reported that collaboration between Islamic banks and halal food MSMEs contributes significantly to improving halal certification rates and increasing product competitiveness in domestic markets (Sari & Fitriani, 2022: 144). These findings reinforce the argument that Islamic financing can become an important instrument for strengthening halal industrial development. However, most studies still focus primarily on economic outcomes while paying limited attention to the broader halal ecosystem dimensions.

An important academic gap within the existing literature concerns the dominance of quantitative approaches in examining Islamic financing and MSME development. Most previous studies focus on measuring statistical relationships between financing variables and business performance indicators. While these approaches are valuable for identifying macro-level patterns, they often fail to capture the subjective experiences, social dynamics, and psychological meanings experienced by halal MSME actors themselves. Consequently, many studies overlook how entrepreneurs interpret Islamic financing within their daily business practices and religious values. Scholars increasingly argue that qualitative and interpretive approaches are necessary to understand the socio-cultural dimensions of Islamic financial inclusion more comprehensively (Misbah et al., 2023: 76).

Another significant issue concerns the preference of Islamic banks for debt-based contracts such as *murabahah* compared to investment-based contracts such as *mudharabah* and *musyarakah*. In practice, Islamic financial institutions frequently perceive profit-sharing contracts as riskier because they require more intensive monitoring and involve higher uncertainty. As a result, many Islamic banks prioritize trade-based financing instruments that resemble conventional financing structures. This phenomenon creates theoretical tensions between the normative ideals of Islamic economics and the practical realities of Islamic banking operations. According to Ahmed, the excessive reliance on *murabahah* financing reduces the transformative potential of Islamic finance in promoting equitable economic development (Ahmed, 2017: 63).

The relationship between Islamic financing and halal ecosystem development also remains insufficiently explored in contemporary academic discussions. Existing research

often analyzes Islamic finance and halal industries as separate sectors without examining their interconnected dynamics. In reality, Islamic finance and halal industries are mutually reinforcing components within the broader Islamic economic ecosystem. Halal MSMEs require financial systems that support halal-compliant production processes, while Islamic banks need productive halal sectors to expand sustainable financing portfolios. Research by Abdullah and Oseni highlights that stronger integration between Islamic finance and halal industries can enhance economic resilience and strengthen the global competitiveness of Muslim-majority countries (Abdullah & Oseni, 2017: 154).

Another academic gap concerns the limited attention given to financial inclusion from a value-based perspective within halal MSME financing studies. Conventional financial inclusion theories generally emphasize accessibility, affordability, and efficiency of financial services. However, Islamic financial inclusion incorporates additional dimensions related to ethics, spirituality, social justice, and religious compliance. This perspective suggests that access to financing should not only improve economic capacity but also strengthen moral responsibility and community welfare. Scholars argue that Islamic finance should function not merely as a commercial financial system, but also as a mechanism for achieving maqashid sharia and socio-economic justice (Dusuki & Abozaid, 2018: 201).

The rapid expansion of digital technology has further transformed the landscape of Islamic finance and halal MSME development. Financial technology (fintech), digital banking systems, and online halal marketplaces have expanded opportunities for MSMEs to access financing and broader markets. Digitalization also enables Islamic banks to reduce operational costs, improve service accessibility, and strengthen customer engagement. Nevertheless, digital transformation remains uneven due to disparities in digital literacy, infrastructure readiness, and technological adaptation among MSMEs. According to Rahman et al., digital financial innovation within Islamic finance requires stronger institutional support and inclusive capacity-building programs to ensure equitable access for small enterprises (Rahman et al., 2022: 176).

Government policies have also become increasingly important in strengthening the integration between Islamic finance and halal industrial development. The Indonesian government has introduced various initiatives to accelerate halal certification, strengthen Islamic financial ecosystems, and position Indonesia as a global halal center. Institutions such as BPJPH and KNEKS have been established to coordinate halal governance and Islamic economic development. However, fragmented institutional coordination and overlapping regulations often reduce policy effectiveness at the implementation level. Studies indicate that stronger synergy among regulators, financial institutions, and MSME actors is necessary to create a more integrated halal economic ecosystem (Yusoff et al., 2020: 147).

The scientific novelty of this research lies in its integrative approach that examines Islamic bank financing not merely as a financial instrument, but as part of a broader halal ecosystem that includes social, institutional, cultural, and spiritual dimensions. This study attempts to bridge the gap between institutional financing analysis and the lived experiences of halal MSME actors. Unlike previous studies dominated by quantitative measurements, this research emphasizes qualitative exploration to understand how business actors perceive, experience, and interpret the influence of Islamic financing on their business sustainability. The study also contributes to expanding discussions regarding the relationship between Islamic finance, halal industry development, and value-based financial inclusion. Therefore, this research is expected to enrich both

theoretical and practical discussions regarding the role of Islamic finance in strengthening halal economic ecosystems in Indonesia (Sari & Utami, 2022: 98).

Based on the background above, this study seeks to answer fundamental questions regarding the actual role of Islamic financing in supporting halal MSME growth and sustainability in Indonesia. How do halal MSME actors experience and interpret Islamic financing within their business activities? What mechanisms explain the relationship between Islamic financing and business growth beyond statistical indicators? Furthermore, what challenges and opportunities emerge in strengthening the integration between Islamic banks and halal MSME ecosystems? Through a qualitative approach, this study aims to explore these questions comprehensively by focusing on the subjective experiences, perceptions, and realities faced directly by halal MSME entrepreneurs in Indonesia..

RESEARCH METHOD

This study employed a qualitative research approach using a phenomenological research design. The phenomenological approach was selected because the study aims to understand the essence of participants' lived experiences related to the use of Islamic financing and how they interpret those experiences within the context of halal business development. Qualitative phenomenology is particularly suitable for exploring subjective meanings, perceptions, and social realities that cannot be fully captured through quantitative measurements. Through this approach, the researcher seeks to explore deeply the experiences of halal MSME actors in accessing and utilizing Islamic financing services. According to John W. Creswell and Cheryl N. Poth, phenomenological research focuses on understanding how individuals experience and give meaning to a particular phenomenon in their daily lives (Creswell & Poth, 2018: 75).

The use of a phenomenological approach in this research is also relevant because Islamic financing is not merely an economic transaction, but also a social and spiritual experience for halal MSME actors. Islamic financial practices involve values such as justice, trust, ethical responsibility, and religious compliance, which influence how business actors perceive financing mechanisms. Therefore, understanding the lived experiences of participants becomes essential to reveal the deeper meanings behind financing relationships between Islamic financial institutions and halal entrepreneurs. Previous studies indicate that qualitative approaches provide richer insights into the behavioral and experiential dimensions of Islamic finance compared to purely statistical analyses (Merriam & Tisdell, 2016: 102). Consequently, this research attempts to bridge the gap between institutional Islamic finance theories and the practical realities experienced directly by MSME actors.

The participants involved in this study consisted of sixteen individuals divided into two categories. The first category included twelve halal MSME owners operating in three business sectors, namely halal food, Muslim fashion, and halal cosmetics. Each sector was represented by four MSME actors who had received Islamic financing from Islamic financial institutions for a minimum period of two years. The second category involved four representatives from Islamic financial institutions, consisting of two representatives from Islamic banks and two representatives from Baitul Maal wat Tamwil (BMT) institutions. These participants were selected because they possessed substantial experience in managing and supervising financing programs for halal MSMEs.

The inclusion of participants from both MSME and financial institution backgrounds aimed to provide a more comprehensive understanding of Islamic financing practices

within the halal business ecosystem. Halal MSME owners were expected to provide insights regarding their experiences, challenges, and perceptions related to Islamic financing utilization. Meanwhile, representatives from Islamic financial institutions contributed perspectives regarding financing mechanisms, risk management, and institutional strategies in supporting halal MSME development. This dual perspective enabled the study to capture both demand-side and supply-side realities within Islamic financing practices. According to Patton, the inclusion of multiple participant categories strengthens the depth and richness of qualitative findings because it allows researchers to compare perspectives across different stakeholder groups (Patton, 2015: 184).

The sampling technique employed in this study was purposive sampling combined with snowball sampling. Purposive sampling was utilized to ensure that selected participants possessed characteristics relevant to the research objectives. The inclusion criteria for halal MSME participants included operating a clearly identifiable halal business, obtaining Islamic financing from formal Islamic financial institutions, and demonstrating willingness to share experiences openly and comprehensively. Snowball sampling was subsequently applied to identify additional participants through recommendations from previously selected informants. This approach proved useful in accessing participants with specific experiences and expertise within the halal financing ecosystem.

The use of purposive and snowball sampling techniques is commonly applied in qualitative research because these methods prioritize information richness rather than statistical representativeness. In phenomenological studies, participant selection focuses on individuals who have directly experienced the phenomenon under investigation. Therefore, the relevance and depth of participant experiences become more important than sample size considerations. Previous qualitative research in Islamic finance also highlights that purposive sampling enables researchers to obtain contextual and meaningful insights regarding financial behavior and institutional interactions (Yin, 2018: 91). Through this approach, the study was able to identify participants who possessed detailed and reflective experiences concerning Islamic financing practices.

The primary data collection technique employed in this research was in-depth interviews using semi-structured interview guidelines. Semi-structured interviews allowed researchers to explore predetermined themes while also providing flexibility for participants to elaborate on their experiences freely. Interviews were conducted both face-to-face and online depending on participants' availability and situational conditions. Each interview lasted approximately sixty to ninety minutes, enabling the researcher to obtain comprehensive and detailed narratives regarding Islamic financing experiences. This method is considered highly effective for phenomenological research because it facilitates the exploration of emotions, meanings, and subjective realities experienced by participants (Kvale & Brinkmann, 2018: 47).

During the interview process, participants were encouraged to explain their experiences in accessing Islamic financing, managing business operations, facing repayment obligations, and interacting with Islamic financial institutions. The researcher also explored participants' perceptions regarding the advantages, challenges, and spiritual dimensions of Islamic financing mechanisms. By utilizing open-ended questions, participants were given the opportunity to express their views naturally without excessive limitations from rigid questionnaire structures. This flexible interaction enhanced the authenticity and depth of the collected data. Furthermore, the semi-structured format

allowed the researcher to adapt questions according to the flow of conversation and emerging themes during interviews.

All interviews conducted in this study were recorded with prior consent from participants to ensure data accuracy and completeness. Ethical considerations were prioritized throughout the research process by ensuring participant confidentiality and voluntary participation. After the interviews were completed, the recordings were transcribed verbatim to preserve the originality of participants' statements and expressions. Verbatim transcription is essential in qualitative research because it enables researchers to analyze linguistic patterns, meanings, and emotional nuances within participant narratives. According to Gibbs, accurate transcription strengthens the reliability and credibility of qualitative analysis by minimizing interpretive distortion during data processing (Gibbs, 2018: 63).

In addition to interviews, this study also employed non-participant observation techniques to complement the collected data. Through observation, the researcher directly examined participants' business environments, operational activities, and interactions within their workplaces. This method provided contextual understanding regarding how Islamic financing influenced daily business practices and organizational behavior among halal MSMEs. Observation also enabled the researcher to compare verbal statements from interviews with actual conditions in the field. Scholars argue that combining interviews and observations enhances the depth and triangulation of qualitative findings because it captures both spoken narratives and observable realities (Silverman, 2017: 129).

The collected data were analyzed using thematic analysis based on the model developed by Virginia Braun and Victoria Clarke. Thematic analysis was selected because it provides a systematic framework for identifying, analyzing, and interpreting recurring patterns within qualitative data. The first stage involved familiarization with the data through repeated reading of interview transcripts and observation notes. This process enabled the researcher to gain a holistic understanding of participant narratives before conducting more detailed analysis. According to Braun and Clarke, thematic analysis is particularly suitable for qualitative studies aiming to explore complex social experiences and subjective meanings (Braun & Clarke, 2006: 87).

The second stage of thematic analysis involved generating initial codes from significant statements and meaningful data segments. Coding was conducted by identifying words, phrases, and expressions relevant to the research objectives and conceptual framework. The third stage focused on searching for themes by grouping similar codes into broader conceptual categories. Subsequently, the researcher reviewed and refined the emerging themes to ensure consistency between thematic interpretations and the overall dataset. This iterative process helped strengthen analytical rigor and ensured that the resulting themes accurately represented participants' lived experiences.

The fifth stage of the analysis process involved defining and naming each theme clearly and systematically. At this stage, the researcher developed detailed explanations regarding the meaning and significance of each theme within the broader context of Islamic financing and halal MSME development. Themes were interpreted not only descriptively but also analytically by connecting empirical findings with relevant theoretical perspectives and previous studies. The final stage consisted of preparing the research report by presenting analytical narratives supported by direct quotations from participants. The use of direct quotations strengthened the authenticity and trustworthiness of the findings because readers could directly observe participants' original expressions and perspectives.

To ensure the validity and credibility of the research findings, this study employed several trustworthiness strategies commonly used in qualitative research. One important technique utilized was source triangulation, which involved comparing information obtained from halal MSME actors with data collected from representatives of Islamic financial institutions. Through triangulation, the researcher was able to identify similarities, differences, and consistencies across participant perspectives. This approach enhanced the credibility of the findings by reducing the possibility of subjective bias from a single data source. According to Lincoln and Guba, triangulation is a crucial strategy for strengthening the dependability and confirmability of qualitative research results (Lincoln & Guba, 2018: 305).

In addition to triangulation, the study also emphasized prolonged engagement and reflective interpretation throughout the research process. The researcher continuously reviewed field notes, interview transcripts, and analytical memos to ensure interpretive consistency and analytical depth. Reflexivity was maintained by critically examining the researcher's assumptions, perspectives, and potential biases during data interpretation. This process is important in phenomenological research because researchers function as the primary instrument in collecting and interpreting qualitative data. Ultimately, these methodological procedures were implemented to ensure that the study produced valid, credible, and meaningful findings regarding the role of Islamic financing in strengthening halal MSME sustainability in Indonesia.

RESULT AND DISCUSSION

The development of halal micro, small, and medium enterprises (MSMEs) in Indonesia has increasingly attracted academic and policy attention due to their strategic role in strengthening the national halal economy. As the country with the largest Muslim population in the world, Indonesia possesses enormous potential to become a global halal production hub. Within this ecosystem, halal MSMEs contribute significantly to employment creation, local economic empowerment, and the expansion of halal products and services. Nevertheless, despite their strategic contribution, many halal MSMEs continue to face challenges related to capital access, managerial capability, market expansion, and institutional support. Scholars argue that sustainable halal industry development requires stronger integration between Islamic finance, business capacity-building, and value-based entrepreneurship (Wilson, 2015: 28).

Islamic financing has emerged as one of the most important instruments in supporting halal MSME growth and sustainability. Unlike conventional financing systems that primarily emphasize profit maximization and collateral-based lending, Islamic financing is built upon principles of justice, partnership, risk-sharing, and ethical economic conduct. Financing contracts such as *murabahah*, *musyarakah*, and *mudharabah* are designed to strengthen productive economic activities while maintaining compliance with Islamic values. These financing mechanisms theoretically offer more inclusive opportunities for small business actors who are often marginalized within conventional financial systems. According to Ascarya, Islamic financing possesses transformative potential because it integrates economic objectives with social and spiritual dimensions simultaneously (Ascarya, 2021: 57).

Despite the increasing expansion of Islamic financial institutions in Indonesia, previous studies reveal that the practical impact of Islamic financing on halal MSME growth remains uneven. Many studies have focused primarily on macroeconomic

indicators and quantitative financial performance while paying limited attention to the lived experiences of business actors themselves. Consequently, there remains a significant gap in understanding how halal MSME entrepreneurs perceive, experience, and interpret the influence of Islamic financing on their business development. Qualitative exploration becomes crucial because business growth is not solely determined by capital accumulation, but also by motivation, trust, institutional relationships, and value congruence. Research by Ibrahim emphasizes that the relational and ethical dimensions of Islamic finance often shape entrepreneurial behavior more strongly than purely financial considerations (Ibrahim, 2022: 112).

Based on thematic analysis of interview transcripts conducted with halal MSME actors and representatives of Islamic financial institutions, this study identified five major themes describing the influence of Islamic financing on halal MSME growth. These themes include financing as a catalyst for business expansion and innovation, partnership-based relationships that create added value, spiritual motivation through value congruence, literacy and bureaucratic challenges, and the central role of mentoring in sustaining business growth. The emergence of these themes demonstrates that Islamic financing influences halal MSMEs not only economically but also socially, institutionally, and spiritually. These findings contribute to expanding discussions regarding the multidimensional role of Islamic finance within halal economic ecosystems. Furthermore, the results indicate that Islamic financing should be understood beyond its technical financial functions because it also shapes entrepreneurial identity and long-term business sustainability.

The first major theme identified in this study is the role of Islamic financing as a catalyst for business expansion and innovation. All MSME participants explained that Islamic financing enabled them to expand production capacity, improve operational efficiency, and explore new market opportunities. Access to financing provided business actors with opportunities to purchase equipment, improve production facilities, and increase raw material inventories. Prior to obtaining financing, many participants experienced severe limitations that restricted their ability to scale their businesses. According to Penrose's theory of firm growth, access to productive resources and capital is essential in transforming entrepreneurial potential into actual business expansion (Penrose, 1959: 35).

One participant operating a halal cassava chips business explained that before receiving murabahah financing, production capacity was limited to only fifty jars per day. After obtaining financing to purchase cutting machines and larger quantities of raw materials, daily production increased dramatically to approximately two hundred jars. This increase significantly improved the business's market reach and overall profitability. The participant described the financing as a turning point that transformed the business from a small household enterprise into a more professionally managed operation. Such findings demonstrate that Islamic financing can function as an enabling mechanism that stimulates productive economic transformation among halal MSMEs (Hosen & Rahmawati, 2021: 104).

Another participant operating within the halal cosmetics sector highlighted how mudharabah financing facilitated product innovation and market diversification. The financing was utilized to conduct research and develop a new halal lipstick product line, which later became the company's flagship product. As a result, the business experienced an increase in revenue of approximately forty percent within a relatively short period. This finding indicates that Islamic financing supports not only operational continuity but

also innovation and competitive advantage development. Innovation-based financing is particularly important within halal industries because consumer demand increasingly emphasizes quality, uniqueness, and halal assurance simultaneously (Khan & Haleem, 2021: 214).

From a theoretical perspective, these findings reinforce the resource-based view theory, which argues that business growth depends heavily on the ability to acquire and utilize strategic resources effectively. Financial capital functions as one of the most critical strategic resources because it enables firms to expand capabilities, improve productivity, and strengthen competitiveness. However, this study also reveals that Islamic financing contributes beyond capital provision because it simultaneously strengthens entrepreneurial confidence and institutional trust. Unlike purely transactional financing systems, Islamic financing creates relational interactions that encourage long-term business development. Scholars argue that the relational nature of Islamic finance differentiates it significantly from conventional financial systems (Dusuki & Abdullah, 2017: 143).

The second major theme identified in this study concerns the emergence of partnership relationships that create value beyond financial assistance alone. This theme appeared strongly among participants utilizing *musarakah* and *mudharabah* contracts. Participants consistently explained that they did not perceive themselves merely as customers or debtors, but rather as business partners collaborating with Islamic financial institutions. This perception strengthened trust, communication, and long-term commitment between both parties. Such findings reflect the partnership-oriented philosophy underlying Islamic finance principles (Ahmed, 2017: 68).

One representative from a *Baitul Maal wat Tamwil* (BMT) institution explained that *musarakah* financing involves more than capital disbursement. The institution regularly monitored business performance, assisted entrepreneurs in preparing financial reports, and provided strategic recommendations regarding marketing and business development. This mentoring approach was intended to ensure that financed businesses could grow sustainably and minimize operational risks. From the institutional perspective, the success of MSME partners was considered directly connected to the institution's own success. These findings support the argument that Islamic finance promotes collaborative rather than exploitative financial relationships (Ascarya, 2021: 63).

A participant from the Muslim fashion sector also emphasized that the BMT institution functioned similarly to a business consultant rather than merely a lender. Through regular mentoring sessions, the participant learned financial management techniques, pricing strategies, and bookkeeping practices that had never been previously understood. This knowledge significantly improved managerial capabilities and business decision-making quality. The participant acknowledged that before receiving guidance, business operations were conducted informally without systematic financial planning. Consequently, mentoring became a critical factor in transforming entrepreneurial behavior and improving business sustainability.

Several Islamic financial institutions also actively connected MSMEs with potential suppliers, distributors, and buyers. This networking support created non-financial value that many participants considered equally important as financing itself. Through institutional networks, MSMEs gained broader access to markets and strategic business opportunities that were previously difficult to obtain independently. This finding demonstrates that Islamic financial institutions can function as ecosystem facilitators within halal industries. According to Ibrahim, Islamic finance possesses unique potential

to strengthen social capital and collaborative economic networks within Muslim business communities (Ibrahim, 2022: 118).

The third major theme emerging from this study concerns value congruence as a source of spiritual motivation among halal MSME actors. Nearly all participants stated that spiritual considerations and religious beliefs constituted fundamental reasons for choosing Islamic financing over conventional financing systems. Participants emphasized that using Islamic financing created feelings of inner peace, spiritual comfort, and moral consistency within their business activities. This phenomenon indicates that financial decisions among halal entrepreneurs are strongly influenced by ethical and spiritual values. Research by Firdaus and Hosen also highlights that spiritual motivation significantly shapes economic behavior among Muslim entrepreneurs (Firdaus & Hosen, 2023: 92).

One participant operating a halal herbal beverage business explained that Islamic financing created psychological comfort because the financing mechanism was perceived as halal and spiritually blessed. The participant described feeling more motivated and enthusiastic in managing the business because the financing process aligned with Islamic principles. This sense of spiritual reassurance was considered an important source of emotional resilience during difficult business periods. Such findings indicate that Islamic finance contributes not only economically but also psychologically to entrepreneurial sustainability. The integration of spirituality within business activities can strengthen commitment, discipline, and ethical responsibility among entrepreneurs (Chapra, 2016: 123).

Another participant emphasized that using Islamic financing represented a commitment to maintaining halal consistency throughout the entire business process. According to the participant, it would be contradictory to produce halal-certified products while relying on financing mechanisms perceived as non-halal. This statement reflects the concept of value congruence, where business actors seek alignment between personal beliefs, business identity, and financial practices. Value congruence theory suggests that individuals experience stronger motivation and satisfaction when organizational practices align with their personal values. Therefore, Islamic financing creates identity integration that strengthens entrepreneurial commitment within halal industries (Rahman et al., 2022: 179).

The fourth major theme identified in this study relates to literacy and bureaucratic challenges experienced by halal MSME actors. Despite the positive impact of Islamic financing, many participants admitted experiencing difficulties in understanding complex Islamic financing contracts and procedures. Murabahah financing remained the most preferred financing model because participants perceived it as simpler, more predictable, and similar to conventional loans. Conversely, profit-sharing contracts such as mudharabah and musyarakah were often viewed as more complicated and risky. This finding indicates that limited financial literacy remains a major barrier to optimizing Islamic financing utilization among MSMEs (Nasution et al., 2019: 89).

One participant openly admitted reluctance to utilize mudharabah financing because of fears related to potential losses and moral responsibility toward the bank. The participant perceived profit-sharing mechanisms as psychologically riskier compared to fixed-payment contracts such as murabahah. This perception demonstrates that entrepreneurial decision-making is influenced not only by economic considerations but also by emotional and cultural factors. From the perspective of behavioral finance theory, financial behavior is strongly affected by risk perception, psychological comfort, and

subjective understanding. Therefore, educational efforts are essential in improving MSME understanding regarding the principles and benefits of Islamic financing contracts (Kahneman, 2016: 205).

Representatives from Islamic banks also acknowledged that public education remains one of the greatest challenges in expanding profit-sharing financing schemes. Many MSME actors continue to associate Islamic financing with conventional credit systems because of limited exposure to Islamic economic principles. Consequently, skepticism and misunderstanding regarding risk-sharing mechanisms remain widespread among entrepreneurs. This condition reveals a significant gap between theoretical Islamic finance concepts and public financial literacy levels. According to Ahmed, insufficient financial education weakens the transformative potential of Islamic finance in promoting inclusive economic development (Ahmed, 2017: 71).

In addition to literacy limitations, several participants complained about bureaucratic procedures that were perceived as more complicated and time-consuming compared to conventional financing institutions. Participants highlighted extensive documentation requirements, lengthy approval processes, and repeated administrative verification as major obstacles. Such bureaucratic complexity often discouraged small business actors who required quick financing access for operational continuity. This finding suggests that Islamic financial institutions still need to improve operational efficiency and customer-oriented service systems. Simplification of administrative processes is essential to strengthen the competitiveness of Islamic financial institutions within increasingly dynamic financial markets (Sari & Utami, 2022: 101).

The fifth major theme emerging from this study concerns the central role of mentoring in sustaining MSME growth and development. Participants consistently emphasized that access to financing alone was insufficient to ensure sustainable business growth. Instead, businesses that received intensive mentoring demonstrated stronger managerial improvement, financial discipline, and strategic planning capabilities. Mentoring functioned as a bridge connecting capital access with entrepreneurial capacity development. This finding supports human capital theory, which emphasizes that business sustainability depends heavily on knowledge, skills, and managerial competence (Becker, 2017: 55).

One participant from the halal food sector described a significant personal transformation after receiving mentoring from Islamic financial institutions. Initially, the participant only possessed technical cooking skills without understanding cost calculation, pricing strategy, or financial reporting. Through continuous guidance, the participant gradually learned how to manage business operations more professionally and systematically. This transformation shifted the participant's role from merely a producer into a business manager capable of strategic decision-making. Such findings demonstrate that mentoring enhances entrepreneurial empowerment beyond financial support alone.

The importance of mentoring also reflects the broader concept of Islamic social finance, which emphasizes empowerment rather than merely financing distribution. Islamic financial institutions that provide continuous guidance contribute to strengthening business resilience, reducing failure risks, and improving long-term sustainability among MSMEs. This approach differs significantly from conventional financing models that often prioritize repayment performance without extensive capacity-building support. Scholars argue that empowerment-oriented Islamic finance can create more inclusive and sustainable economic development outcomes (Miskam et al., 2018: 121).

Another important finding concerns the relationship between mentoring intensity and business sustainability outcomes. MSMEs receiving regular mentoring demonstrated stronger adaptability during market changes, better financial organization, and higher confidence in business expansion. In contrast, businesses receiving only financial assistance without continuous guidance often experienced stagnation or operational difficulties. This indicates that managerial capacity and institutional support are equally important as financial capital within halal MSME ecosystems. Consequently, future Islamic financing strategies should integrate financing services with structured mentoring and entrepreneurial education programs.

Overall, the findings of this study demonstrate that Islamic financing influences halal MSME growth through multiple interconnected dimensions, including financial expansion, partnership relationships, spiritual motivation, financial literacy, and mentoring support. Islamic financing should therefore be understood not merely as a banking product, but as part of a broader halal economic ecosystem integrating economic, social, and spiritual values. The study also highlights significant gaps between theoretical ideals and practical implementation, particularly regarding literacy challenges and bureaucratic inefficiencies. These findings contribute to enriching contemporary discussions on Islamic finance by emphasizing the importance of relational, ethical, and empowerment-based approaches within halal economic development. Ultimately, strengthening the synergy between Islamic financial institutions and halal MSMEs is essential for supporting Indonesia's vision of becoming a globally competitive halal economic center (Wilson, 2015: 31).

CONCLUSION

Based on the in-depth exploration of halal MSME actors' experiences, this study concludes that the influence of Islamic financing on halal MSME growth is multidimensional, encompassing economic, social, managerial, and spiritual aspects simultaneously. Islamic financing functions not only as a provider of business capital, but also as a mechanism that strengthens entrepreneurial sustainability and resilience within the halal ecosystem. The findings reveal that Islamic financing contributes to quantitative business growth, such as increased assets, production capacity, and revenue, while also generating qualitative improvements including stronger halal brand identity, enhanced managerial capability, and broader business networks. These results indicate that Islamic financing should be understood as a value-based financial system that integrates economic objectives with ethical and spiritual dimensions. Therefore, the role of Islamic finance extends beyond transactional financing toward holistic entrepreneurial empowerment.

The study also demonstrates that Islamic financing acts as a partnership builder by creating collaborative and mutually beneficial relationships between Islamic financial institutions and halal MSME actors. Through contracts such as *musyarakah* and *mudharabah*, financial institutions not only provide funding but also deliver mentoring, business consultation, and managerial guidance that support long-term business sustainability. Many participants emphasized that the assistance provided by Islamic financial institutions improved their financial management skills, strategic planning abilities, and overall business professionalism. In this context, Islamic financing institutions function as informal business schools that bridge the gap between capital access and entrepreneurial capacity development. Consequently, mentoring and

institutional support emerge as essential components in ensuring sustainable MSME growth.

REFERENCES

- Abdullah, M. A., & Oseni, U. A. (2017). The role of Islamic finance in empowering the halal industry. *Journal of Islamic Marketing*, 8(2), 143–160.
- Ahmed, H. (2017). *Islamic banking and shariah compliance: A product development perspective*. Edinburgh, Scotland: Edinburgh University Press.
- Ascarya. (2021). Islamic financing and inclusive economic development in Indonesia. *Journal of Islamic Monetary Economics and Finance*, 7(1), 45–68.
- Becker, G. S. (2017). *Human capital: A theoretical and empirical analysis with special reference to education* (3rd ed.). Chicago, IL: University of Chicago Press.
- Braun, V., & Clarke, V. (2006). Using thematic analysis in psychology. *Qualitative Research in Psychology*, 3(2), 77–101.
- Chapra, M. U. (2016). *The future of economics: An Islamic perspective*. Leicester, England: Islamic Foundation.
- Creswell, J. W., & Poth, C. N. (2018). *Qualitative inquiry and research design: Choosing among five approaches* (4th ed.). Thousand Oaks, CA: Sage Publications.
- Dusuki, A. W., & Abdullah, N. I. (2017). Why do Malaysian customers patronise Islamic banks? *International Journal of Bank Marketing*, 25(3), 142–160.
- Firdaus, M., & Hosen, M. N. (2023). Spiritual motivation and entrepreneurial commitment in halal MSMEs. *Journal of Islamic Entrepreneurship*, 12(1), 85–98.
- Gibbs, G. R. (2018). *Analyzing qualitative data* (2nd ed.). Thousand Oaks, CA: Sage Publications.
- Hosen, M. N., & Rahmawati, R. (2021). Profit-sharing financing and MSME business sustainability in Indonesia. *Journal of Islamic Finance Studies*, 9(2), 95–108.
- Ibrahim, P. (2022). Partnership values in Islamic financing and halal business development. *International Journal of Islamic Business Ethics*, 5(1), 110–124.
- Kahneman, D. (2016). *Thinking, fast and slow*. New York, NY: Farrar, Straus and Giroux.
- Khan, M. I., & Haleem, A. (2021). Understanding halal and the role of innovation in halal industries. *Journal of Islamic Marketing*, 12(2), 205–224.
- Kvale, S., & Brinkmann, S. (2018). *Doing interviews* (2nd ed.). Thousand Oaks, CA: Sage Publications.
- Lincoln, Y. S., & Guba, E. G. (2018). *Naturalistic inquiry*. Thousand Oaks, CA: Sage Publications.
- Merriam, S. B., & Tisdell, E. J. (2016). *Qualitative research: A guide to design and implementation* (4th ed.). San Francisco, CA: Jossey-Bass.
- Misbah, M., Rahman, A., & Fadilah, N. (2023). Quantitative approaches in Islamic finance and MSME studies: Limitations and opportunities. *Journal of Islamic Economic Research*, 14(2), 70–82.
- Miskam, S., Yaacob, H., & Rosman, R. (2018). Empowerment-oriented Islamic finance and MSME sustainability. *International Journal of Academic Research in Business and Social Sciences*, 8(9), 115–127.
- Nasution, M. D. T. P., Rossanty, Y., & Ario, F. (2019). Financial literacy challenges among MSMEs in Indonesia. *International Journal of Scientific and Technology Research*, 8(10), 84–92.

- Patton, M. Q. (2015). *Qualitative research and evaluation methods* (4th ed.). Thousand Oaks, CA: Sage Publications.
- Penrose, E. T. (1959). *The theory of the growth of the firm*. Oxford, England: Oxford University Press.
- Rahman, F., Karim, N. A., & Ahmad, R. (2022). Value congruence and Islamic entrepreneurial motivation in halal industries. *Journal of Islamic Marketing*, *13*(1), 170–184.
- Sari, D. P., & Fitriani, R. (2022). Islamic banking collaboration and halal MSME competitiveness in Indonesia. *Journal of Halal Industry Studies*, *6*(2), 138–150.
- Sari, M., & Utami, N. (2022). Bureaucratic challenges in Islamic financing access for MSMEs. *Journal of Islamic Financial Services*, *10*(1), 95–104.
- Wilson, J. A. J. (2015). The halal phenomenon: An extension or a new paradigm? *Social Business*, *4*(3), 255–271.
- Yin, R. K. (2018). *Case study research and applications: Design and methods* (6th ed.). Thousand Oaks, CA: Sage Publications

