

A Model for Empowering Micro, Small and Medium Enterproces (MSMEs) Through Sharia-Compliant Financing in Regional Developman Bank

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ABSTRACT

Micro, Small, and Medium Enterprises (MSMEs) are critical engines for economic development and employment generation in developing economies. Yet, a persistent barrier to their growth lies in limited access to suitable financing mechanisms. In Indonesia, where Islamic finance has experienced rapid development, regional banks are well-positioned to support MSMEs through sharia-compliant financing. However, the disconnect between Islamic financial principles and the practical financing needs of MSMEs has hindered the effectiveness of such models. This study seeks to develop a model for empowering MSMEs through regional banks using Islamic financial instruments that are both inclusive and sustainable. It aims to identify key internal and external factors affecting MSME empowerment, propose strategic responses to sharia financing challenges, and offer a comprehensive empowerment framework grounded in Islamic economics. Using the Analytic Network Process (ANP), the study analyzes complex interdependencies among influencing factors and prioritizes strategic solutions through expert input. Internally, the foremost concern is improving access to financial products, especially for underserved segments. Externally, challenges include low financial literacy among MSME actors and limited comprehension of Islamic finance principles. The proposed model emphasizes financing through profit-sharing contracts such as *mudharabah* and *musyarakah*, combined with mentoring and monitoring to ensure effective fund usage. The research underscores that a successful empowerment strategy requires not just financial instruments but also education, capacity-building, and ethical guidance. By incorporating the Islamic values of justice (*`adl*), transparency (*shafa'*), and equitable risk-sharing, this model promotes an inclusive and ethical financial ecosystem. Ultimately, the study contributes to advancing Islamic finance as a pathway toward sustainable economic development and broad-based social empowerment.

Keywords: Sharia financing, MSME empowerment, regional banks, Islamic economics, financial literacy.

INTRODUCTION

The empowerment of Micro, Small, and Medium Enterprises (MSMEs) has long been recognized as a critical factor in the economic growth of a country. MSMEs are not only job creators but also play a key role in driving innovation, economic diversification, and the redistribution of wealth and income. In recent years, there has been an increasing emphasis on the need to focus on the MSME sector, particularly within the framework of an economy based on Islamic economic principles. From the perspective of Islamic economics, MSME empowerment is highly significant as it aligns with values of social justice, equity, and sustainability. Islamic economics emphasizes the fair distribution of wealth and economic opportunities, prioritizing moral principles in all business transactions (Sedyastuti, 2018). Empowering MSMEs within the Islamic economic framework is not solely about providing access to capital and financial support. It also involves social, ethical, and justice-based aspects of economic activities. This includes providing access to knowledge, skills, infrastructure, and networks that can help MSMEs grow sustainably. Furthermore, within the context of Islamic economics, MSME empowerment incorporates principles such as profit-sharing, risk-sharing, and preferential treatment for less fortunate entrepreneurs. These efforts aim to create an inclusive economic environment where individuals have fair opportunities to participate in economic activities and fairly benefit from production and distribution outcomes. MSME empowerment under Islamic economics is not only an economic necessity but also an integral part of achieving a sustainable, inclusive, and just economy. This

indicates that the Islamic economic approach can make a significant contribution to building a more balanced economy that prioritizes the welfare of society as a whole (Hapsari & Kinseng, 2018).

Islamic economic systems are based on principles of justice, inclusivity, and sustainability in economic activities. Essentially, financing based on Islamic economic principles focuses on diversity, fair distribution, and the avoidance of transactions involving *riba* (interest) and *gharar* (uncertainty). In this context, local banks, particularly Regional Banks, play a vital role in strengthening the MSME ecosystem by developing empowerment models that align with Islamic economic principles. Regional Banks have a closer connection to the local economic environment and have the potential to become significant agents of change in driving local economic growth through MSME empowerment. By utilizing Islamic economic principles, Regional Banks can develop financing models that not only provide access to capital but also enhance capabilities, improve competitiveness, and create fair opportunities for MSME actors (Setiawan, 2021).

A key principle in Islamic economics is profit-sharing and risk-sharing between the financier and the entrepreneur. This means that banks, as financial institutions, must share the risks with MSMEs in the ventures they finance. In this way, banks do not simply provide funds but become partners in the business journey of MSME owners. Furthermore, in practice, Regional Banks can apply various financing schemes aligned with Islamic principles, such as *mudharabah* (profit-sharing), *musyarakah* (partnership), and *murabahah* (sale with a profit margin). By applying these approaches, Regional Banks can provide financial support to MSMEs without involving interest or speculative transactions (Ertiyant & Latifah, 2022).

In addition to financing, Regional Banks can also offer guidance and support to MSMEs in areas such as business management, marketing, and product development. This aims to strengthen the capacity and independence of MSME owners, enabling them to grow sustainably and remain competitive in the market. By implementing Islamic economic principles in the MSME empowerment model, Regional Banks can serve as the main drivers of sustainable and inclusive local economic growth. This approach aligns with the vision of Islamic economics, which emphasizes justice, balance, and welfare for all members of society (Ahyar, 2019).

OBJECTIVES

This study aims to develop a model for empowering MSMEs based on sharia-compliant financing in regional banks. Specifically, the research seeks to:

1. Identify internal and external priority aspects influencing MSME empowerment.
2. Determine strategic solutions to overcome challenges in sharia financing implementation.
3. Propose an empowerment model aligned with Islamic economic principles that enhances MSMEs' access to inclusive and equitable financing.

METHODS

This study adopts a qualitative approach aimed at understanding the values and perspectives held by experts and Sharia practitioners regarding Empowering MSMEs through Sharia-Compliant Financing in Regional Development Banks. The analytical method employed is the Analytic Network Process (ANP). The primary data were obtained through in-depth interviews with experts and practitioners possessing substantial knowledge of the relevant issues (Ascarya, 2005).

The selection of ANP as the research methodology is based on its capacity to capture strategic priorities by accommodating the interrelationships among criteria and alternatives, a feature not addressed by the Analytical Hierarchy Process (AHP) (Saaty, 1999). As an advancement of AHP, ANP offers a significant advantage by incorporating inner dependence (interrelations within a single set of elements) and outer dependence (interrelations across different element sets), thus providing a more dynamic and interactive assessment framework. While ANP is inherently more complex than AHP, its ability to reflect the interconnected dynamics among relevant variables makes it particularly suitable for research on Empowering MSMEs .

By utilizing ANP, this study aims to develop a more comprehensive model for Empowering MSMEs through Sharia-Compliant Financing in Regional Development Banks that aligns with the views of experts and practitioners in the field of Islamic finance.

Table 1. List of Research Respondents

No	Respondent Name	Field Expertise of	Current Position
1	Yusri	Regulator	Direktur OJK Sumatera Utara
2	Prof. Dr. Ritha F. Dalimunthe, SE., M.Si	Academic	Akademisi FEB USU dan Direktur Eksekutif KDEKS Sumatera Utara
3	Dr. Naslindo Sirait, SE., MM.	Regulator	Kepala Dinas Koperasi dan UMKM Pemprop Sumatera Utara
4	Babay Parid Wazdi	Practitioner	Direktur Utama PT Bank Sumut
5	Dr. Deddy Nofendy, M.Ag,	Practitioner	Kepala Bidang <i>International Banking Bank Aceh</i>
6	Syafrizal Syah	Practitioner	Direktur Bisnis & Syariah Bank Sumut
7	Dr. Fikri Alhaq Fachryana	Practitioner	Direktur Koperasi UMKM Syariah Sumut

The respondent population in this study comprises seven experts with specific knowledge related to MSMEs through Sharia-Compliant Financing. These include one representative from a regulatory authority, practitioners, and additional experts. Respondents were selected through purposive sampling, intentionally targeting individuals with recognized expertise and direct involvement with MSMEs and Sharia-Compliant Financing. This selection process adheres to the valid respondent requirements for ANP-based studies.

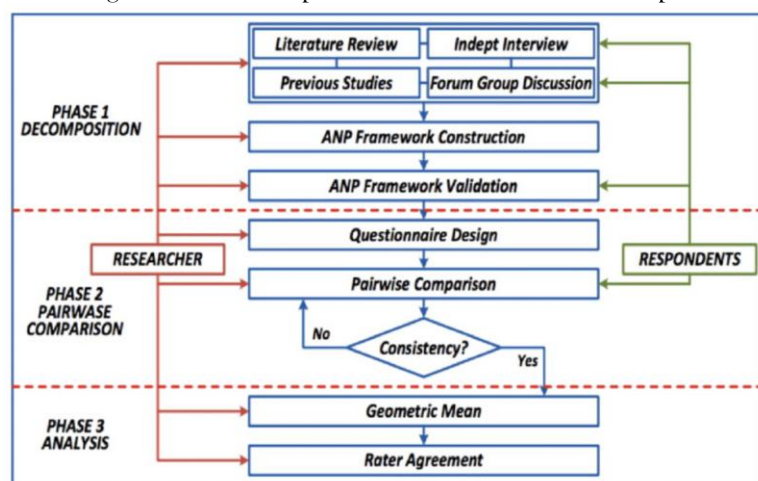


Figure 1. Stages of the ANP (Analytic Network Process)

1. Model Construction

This phase marks the initial step in building an ANP model. The researcher conducts a comprehensive literature review, expert discussions, and focus group discussions (FGD). The model design is guided by expert inputs and FGD outcomes (Saaty, 2004). A well-established model at this stage ensures a strong foundation for subsequent steps.

2. Model Quantification

This step involves refining and finalizing the questionnaire used in the ANP analysis. It includes pilot testing the ANP questionnaire and engaging with respondents according to their respective areas of expertise.

3. Result Analysis

This is the concluding phase of the ANP process. Researchers analyze responses using the Super Decisions software, which facilitates **pairwise comparison** between elements within a cluster. This allows researchers to determine the relative influence of each element using a numerical scale (1 to 9) (Ascarya, 2011).

The foundation of this analytical process rests on axiomatic principles. A theory's applicability and generalization increase when its axioms are minimal and straightforward. Key axioms in ANP include:

- **Reciprocal Axiom:** If the pairwise comparison value between element A and B is $PC(EA, EB)$, then $PC(EB, EA) = 1 / PC(EA, EB)$.
- **Homogeneity Axiom:** The compared elements should not differ excessively, as large disparities can introduce significant judgment errors (Ascarya, 2005).
- **Representational Axiom:** Individuals must ensure that their beliefs are adequately represented in the final results, aligning outcomes with established expectations.
- **Hierarchy Axiom (not applicable in ANP):** In contrast to AHP, ANP does not assume independence between levels; instead, it accommodates feedback and interdependence.

ANP allows for four types of models: simple network, two-level network, BOCR model (Benefits, Opportunities, Costs, Risks), and complex network (Saaty, 2003). This study adopts the **complex network model**, enabling a detailed analysis of problems, solutions, and strategies for MSMEs and Sharia-Compliant Financing. This model was selected for its ability to address intricate interdependencies, thus allowing for a more robust understanding of the development of MSMEs.

Table 2. MSMEs and Sharia-Compliant Financing

Level of Importance	Definition	Description
1	Equally Important	Both elements equally influence the criterion.
3	Slightly More Important	Judgment slightly favors one element over the other.
5	More Important	Experience and judgment strongly favor one element.
7	Very Strongly Important	One element is clearly preferred and dominates in practice.
9	Absolutely More Important	One element is conclusively more important than its counterpart.
2, 4, 6, 8	Intermediate Values	Used to express compromise between adjacent judgments.

a. axiom

This axiom posits that individuals who possess a foundational basis or rationale for their beliefs must ensure that their ideas are adequately represented in the final outcome, in accordance with the expectations or goals that have been previously established. In other words, an accurate and appropriate representation of those ideas is necessary to achieve alignment between belief and the desired outcome (Saaty, 2003; Von Winterfeldt & Edwards, 1986). This alignment serves as a critical component in rational decision-making processes, especially within systems that demand consistency between subjective judgments and objective results.

b. The hierarchical structure

The hierarchical structure—which is not applicable within the Analytic Network Process (ANP)—asserts that the assessment or prioritization of elements is independent of elements located at lower hierarchical levels. This structure necessitates the use of a strictly hierarchical approach. In contrast, the ANP accommodates a more flexible framework by allowing interdependence and feedback among elements at different levels. The ANP comprises four distinct modeling types: the simple model, the two-level network model, the BOCR (Benefits, Opportunities, Costs, Risks) model, and the complex network model (Saaty, 2003). In this study, the complex network model is employed to conduct a detailed analysis of the problems, solutions, and strategic directions involved in the development of model. This model is particularly suitable for capturing and analyzing complex interdependencies among elements, thereby enabling a more comprehensive understanding of the dynamics at play in the development of Islamic financial institutions (Ascarya, 2011; Ishizaka & Labib, 2009).

RESULTS

1. Analysis of ANP Results on Internal Problems in the Empowerment Model of Sharia-Based MSMEs Financing at Regional Banks

The results of the ANP analysis indicate that among the internal problems facing sharia-based MSME empowerment through regional banks, the “product” aspect emerges as the most critical factor, with the highest limiting value of 0.046815 and ranking first. This is followed by human resources (HR) with a limiting value of 0.007126, and finally, top management with a value of 0.004882. The Consistency Ratio (CR) across all matrices remains below the acceptable threshold of 0.1, confirming the consistency of respondents' judgments (Saaty, 2001).

Table 1. Results on Internal Problems in the Empowerment Model

Internal Issues				
Item	Comparison Matrix Value	Rank	Limiting Value	Rank
Top Management	0.08299	3	0.004882	3
Human Resources (HR)	0.12115	2	0.007126	2
Product	0.79586	1	0.046815	1
Consistency Ratio (CR): 0.09609				
Top Management				
Sub-Criteria	Comparison Matrix Value	Rank	Limiting Value	Rank
Vision and Commitment	0.07180	3	0.004766	3
Decision-Making	0.11398	2	0.007247	2
Supervision and Evaluation	0.81421	1	0.048437	1
Consistency Ratio (CR): 0.05156				
Human Resources (HR)				
Sub-Criteria	Comparison Matrix Value	Rank	Limiting Value	Rank
Competence	0.07042	3	0.004934	3
Training and Development	0.17818	2	0.011273	2
Work Ethic	0.75140	1	0.044992	1
Consistency Ratio (CR): 0.02795				
Product				
Sub-Criteria	Comparison Matrix Value	Rank	Limiting Value	Rank
Innovation	0.12115	2	0.012328	2
Accessibility	0.79586	1	0.052017	1
Promotion	0.08299	3	0.010083	3
Consistency Ratio (CR): 0.09609				

Within the “product” node, accessibility ranks as the most influential sub-criterion (limiting value = 0.052017), suggesting that the ease with which MSMEs can access sharia-compliant financial products plays a pivotal role. Accessibility may include the simplicity of requirements, proximity of services, or ease of digital access—factors increasingly emphasized in Islamic financial inclusion (Abdullah & Oseni, 2017). Meanwhile, innovation (0.012328) and promotion (0.010083) follow, indicating that while valuable, they are secondary compared to accessibility. This highlights a key implication: Sharia-compliant financial products must be easily accessible and tailored to MSMEs' operational realities. The limited outreach of complex or rigidly structured Islamic finance products can hinder MSME uptake, despite their theoretical alignment with MSME needs (Hassan et al., 2019).

The HR factor also features significantly, particularly the sub-criterion of work ethic (0.044992), which ranked highest among HR indicators. This suggests that the attitudinal and behavioral commitment of employees, potentially including frontliners at regional Islamic banks, can directly affect the empowerment outcomes of MSMEs. Training and development (0.011273) and competence (0.004934) follow, indicating a demand for

strategic HR investment. This aligns with prior findings that staff readiness and soft skills are indispensable for delivering inclusive and ethical Islamic financial services, especially in decentralized or semi-formal banking environments (Dusuki & Abdullah, 2007).

Interestingly, top management is ranked lowest, although the sub-criterion monitoring and evaluation (0.048437) ranks highest within this node. This implies that oversight mechanisms are valued more than vision or decision-making alone, possibly reflecting a concern over implementation gaps rather than policy direction. Prior studies affirm that governance structures and continuous evaluation frameworks are central to sustaining shariah-aligned MSME programs, especially in regional banks where institutional capacity varies (Ismail & Possumah, 2020).

The ANP results underline the multidimensionality of internal challenges in MSME empowerment via Islamic finance at regional banks. Product accessibility and design, followed by employee commitment and training, and managerial oversight, constitute the pillars of a successful empowerment model. These findings suggest that policies aiming to optimize sharia-based MSME financing should prioritize product accessibility, enhance HR capabilities, and strengthen monitoring systems within regional Islamic banking institutions.

2. Analysis of ANP Results on External Problems in the Sharia-Based MSME Empowerment Model through Regional Banks

The Analytic Network Process (ANP) analysis reveals that external problems, particularly those related to MSME clients, are the most critical to address in the empowerment model of micro, small, and medium enterprises (MSMEs) through Sharia-compliant financing at regional banks. This conclusion is based on the limiting value of 0.038550, significantly higher than that for regulations (0.017044) and other Islamic financial institutions (IFIs) and business institutions (0.003229). The overall Consistency Ratio (CR) of 0.07721 suggests that the pairwise comparisons made in this analysis are within the acceptable range for decision consistency (Saaty, 2001).

Table 2. Results on External Problems in the Empowerment Model

External Issues				
External Issues	Comparison Matrix Value	Rank	Limiting Value	Rank
MSME Customers	0.65536	1	0.03855	1
Other Business Institutions and Islamic Financial Institutions (LKS)	0,38125	3	0.003229	3
Regulations	0.28974	2	0.017044	2
Consistency Ratio (CR): 0.07721				
MSME Customers				
MSME Customer Issues	Comparison Matrix Value	Rank	Limiting Value	Rank
Financial Literacy	0.03356	5	0.002358	5
Business Management	0,21875	2	0.022579	2
Collateral and Administration	0,16319444	7	0.001686	7
Character	0.42665	1	0.030596	1
Economic Conditions	0.05562	4	0.003985	4
Competency	0.11734	3	0.008409	3
Product Quality	0.02834	6	0.002061	6
Consistency Ratio (CR): (not specified)				
Other Business Institutions and Islamic Financial Institutions (LKS)				
Institutional Issues	Comparison Matrix Value	Rank	Limiting Value	Rank
Differences in Vision within Sharia Business	0.80441	1	0.048395	1
Channeling Mechanism	0.07378	3	0.005417	3
Guarantee Institutions	0.12181	2	0.008242	2

Consistency Ratio (CR): (not specified)				
Regulations				
Regulatory Issues	Comparison Matrix Value	Rank	Limiting Value	Rank
Lack of Incentives	0.07278	3	0.006412	3
Lack of Dissemination/ Socialization	0.04305	4	0.004663	4
Budget Supervisors	0.21769	2	0.014936	2
Consistency Ratio (CR): (not specified)				

The dominant importance of MSME clients (limiting value = 0.038550) suggests that the success of MSME empowerment programs is highly dependent on the readiness and capacity of the clients themselves. Within this group, the most influential subfactor is character (0.030596), followed by business management (0.022579) and competence (0.008409). This implies that behavioral, managerial, and cognitive attributes of MSME actors critically shape their ability to access and utilize Sharia-compliant financing effectively. Character is considered a cornerstone of creditworthiness in Islamic finance, especially due to the absence of interest-based securities and the emphasis on trust and ethical behavior (Obaidullah & Khan, 2008). Furthermore, many MSMEs lack adequate financial literacy, strategic planning, and documentation, making their business management capabilities essential for successful financing outcomes (Tambunan, 2019). The second most important external factor is regulation (0.017044), with budget supervision (0.014936) identified as the most significant subcomponent. This suggests that weak regulatory oversight, lack of targeted incentives, and limited outreach or socialization of Sharia financing schemes hinder broader adoption by both banks and MSMEs. Previous research has shown that the development of Islamic microfinance is often constrained by insufficient legal frameworks and lack of structured support from regulatory authorities (Ahmed, 2002). Moreover, the absence of consistent fiscal incentives and lack of awareness among stakeholders further weaken the impact of government efforts. While institutional factors are ranked lowest in importance (limiting value = 0.003229), the most significant concern in this group is the misalignment of vision in Sharia business models (0.048395). This highlights the need for greater strategic alignment among Islamic financial institutions (IFIs), banks, and other intermediaries to support unified objectives in empowering MSMEs. Channeling mechanisms and credit guarantees, though ranked lower, remain operationally important. Without alignment, fragmentation and inconsistent approaches among institutions can reduce the overall impact of Sharia-based MSME empowerment programs (Huda et al., 2012). Hence, fostering collaborative ecosystems where values and goals are harmonized is essential. This ANP-based analysis indicates that external problems are deeply embedded in the capabilities and characteristics of MSME clients themselves. While systemic and institutional support is critical, the empowerment model must prioritize behavioral and managerial enhancement of MSME actors, ensure clear regulatory support, and promote collaborative alignment among Shariah-compliant institutions.

2. Analysis of ANP Results For Internal Solutions in A Sharia-Based MSME Empowerment Model Through Regional Banks

The results of the Analytic Network Process (ANP) analysis for internal solutions indicate that three main components—Top Management, Human Resources (HR), and Product Development—play a critical role in enhancing the success of MSME empowerment models based on Sharia financing. The limiting values for each sub-element reveal the most impactful internal improvements that regional banks must prioritize to effectively empower MSMEs.

Table 3. Results on Internal Solution in the Empowerment Model

Top Management				
Item	Comparison Matrix Value	Rank	Limiting Value	Rank
Fit and Proper Test	0.14882	2	0.009296	2
MSME Commitment	0.78539	1	0.046742	1

Fair Reward and Punishment	0.06579	3	0.004413	3
Consistency Ratio (CR): 0.07721				
Human Resources (HR)				
Human Resources (HR) Issue	Comparison Value	Matrix Rank	Limiting Value	Rank
Recruitment of MSME-focused Human Resources	0.14882	2	0.009546	2
Enhancement of Knowledge and Skills	0.78539	1	0.046991	1
Provision of Competitive Incentives	0.06579	3	0.004662	3
Consistency Ratio (CR): 0.07721				
Product				
Product Issue	Comparison Value	Matrix Rank	Limiting Value	Rank
Development of Holistic Funding Products	0.11732	2	0.012103	2
Development of MSME Financing Products and Portfolios	0.80581	1	0.052602	1
Strengthening Synergies with Other Institutions	0.07687	3	0.009723	3
Consistency Ratio (CR): 0.07721				

Within the internal aspect of Top Management, the most dominant element is commitment to MSME development, with a limiting value of 0.046742, significantly higher than fit and proper tests (0.009296) and fair reward and punishment systems (0.004413). This highlights that management's dedication to MSME goals is more impactful than formal qualifications or incentive systems. Top management commitment reflects strategic alignment with inclusive economic goals, particularly within Sharia banking principles that emphasize social justice and support for underserved sectors (Ascarya & Yumanita, 2005). In practice, this translates into policies that prioritize MSME financing, allocate resources appropriately, and integrate MSMEs into institutional planning. A committed top leadership also ensures continuous improvement and oversight, which aligns with research emphasizing leadership engagement as a predictor of successful MSME financial inclusion (Kayed & Hassan, 2011). The Human Resources aspect highlights the importance of improving knowledge and skills related to MSMEs, with a limiting value of 0.046991, significantly outweighing both the selection process (0.009546) and incentives (0.004662). This suggests that human capital development must go beyond hiring or monetary motivation and instead focus on continuous education, Sharia product training, risk management, and MSME advisory skills. MSMEs often require non-financial support services, such as mentoring and business development training, which can only be effectively provided by well-trained personnel (Dusuki, 2008). Moreover, research has shown that Islamic banks frequently underperform in serving MSMEs due to staff limitations in business development understanding (Yumni, 2020). Therefore, strategic HR investments are critical in building an ecosystem where MSME empowerment is institutionally supported. Among the Product-related solutions, the development of MSME financing products and portfolios has the highest limiting value of 0.052602. This emphasizes the role of customized, Sharia-compliant financing instruments tailored to the specific needs and risks associated with MSME operations. Islamic banks are expected not only to avoid interest (riba) but also to implement profit-loss sharing, partnership-based instruments like *mudarabah* and *musharakah*, or asset-backed contracts like *murabahah* and *ijarah* that align with the business cycles of MSMEs (Hassan, Kayed, & Oseni, 2013). The significantly lower values for holistic funding product development (0.012103) and institutional synergy (0.009723) suggest that while diversification and partnerships are important, the internal capacity to design and offer targeted financing products takes precedence. These findings are in line with the literature

advocating for product-focused innovation as the main driver of Islamic banking growth among underserved segments (Ubaidillah & Nurkholis, 2021).

3. Analysis of ANP Results for External Solutions in a Sharia-Based MSME Empowerment Model through Regional Banks

The Analytic Network Process (ANP) results for external solutions identify three key stakeholders in the empowerment of MSMEs through Sharia-compliant financing: MSME Customers, Partner Institutions (including Islamic Financial Institutions), and Regulatory Authorities. The limiting values serve to highlight which external factors hold the most strategic significance in enabling a successful MSME empowerment model.

Table 4. Results on External Solution in the Empowerment Model

MSME Customers				
Item	Comparison Matrix Value	Rank	Limiting Value	Rank
Education	0.77031	1	0.049596	1
Product and Portfolio Promotion	0.16176	2	0.013798	2
Incentives for Timely Customers	0.06793	3	0.008279	3
Consistency Ratio (CR): 0.05156				
Business Institutions and Other Financial Service Institutions (FSIs)				
Item	Comparison Matrix Value	Rank	Limiting Value	Rank
Improvement of Communication	0.17818	2	0.010481	2
Education Related to MSMEs	0.75140	1	0.044200	1
Promotion	0.07042	3	0.004142	3
Consistency Ratio (CR): 0.02795				
Regulations				
Item	Comparison Matrix Value	Rank	Limiting Value	Rank
MSME Commitment	0.14882	2	0.011594	2
Support for Holistic MSME Development and Synergies	0.78539	1	0.049040	1
Strengthening MSME Regulations	0.06579	3	0.006711	3
Consistency Ratio (CR): 0.07721				

Under the “MSME Customer” cluster, education emerges as the most important external solution, with a limiting value of 0.049596, far surpassing product promotion (0.013798) and incentives for reliable clients (0.008279). This finding emphasizes that financial literacy and Sharia education among MSME clients are foundational to the success of empowerment efforts. Many MSMEs in Indonesia remain unfamiliar with the operational mechanisms, benefits, and obligations embedded in Islamic financial contracts such as *mudharabah*, *murabahah*, and *wakalah* (Hasanah et al., 2020). Educating MSME clients enhances their understanding of risk-sharing principles, compliance requirements, and profit-loss mechanisms. Education also fosters trust and long-term engagement with Sharia banks, which is essential in expanding the outreach of Islamic financial services (Lestari & Fitriani, 2020). Therefore, targeted education programs on Islamic finance and MSME development should be prioritized over transactional or promotional approaches. For the category of “Business Institutions and Other Islamic Financial Institutions”, the highest-ranked external factor is again education related to MSMEs, with a limiting value of 0.044200, followed by communication improvement (0.010481) and promotion (0.004142). This suggests that external institutional partnerships should emphasize capacity-building and knowledge transfer rather than purely promotional collaboration. Establishing networks between regional Sharia banks and Islamic microfinance institutions, cooperatives, or business incubators can provide MSMEs with access to non-financial services such as training, mentoring, and networking opportunities (Effendi, 2021). Improved communication and coordination between institutions can lead to synergistic service delivery, such as integrated financing and business development

services. This multi-stakeholder approach reflects the maqasid al-shariah (objectives of Islamic law), which aims to promote social welfare through collaboration (Antonio, 2001). Within the “Regulation” category, the most significant factor is holistic and synergistic MSME development support, with a limiting value of 0.049040, surpassing both regulatory strengthening (0.006711) and commitment to MSMEs (0.011594). This indicates that fragmented or sector-specific regulations are less effective than comprehensive policies that align national, regional, and institutional frameworks to empower MSMEs. Policy harmonization across ministries (e.g., Finance, Cooperatives, Religious Affairs) and local governments is critical to building an enabling ecosystem (OECD, 2020). Additionally, a supportive regulatory environment that promotes innovation in Islamic financing products, allows for credit guarantee schemes, and mandates inclusive financial services can substantially enhance MSME growth (Riwajanti, 2013). Thus, effective empowerment requires policy coordination, inclusive planning, and consistent follow-up by regulatory bodies. The ANP findings reveal that among external strategies, education—both at the MSME level and the institutional level—is the most impactful lever in implementing an effective sharia-based empowerment model. This suggests a shift in focus from transactional strategies (like incentives and promotion) to transformational engagement that builds knowledge, trust, and networks. Furthermore, regulatory bodies must adopt an integrative and holistic approach, enabling MSMEs to access not only financing but also long-term development support. To that end, collaboration across institutions and between public and private actors is essential.

DISCUSSION

This study yields several significant findings related to the empowerment model of MSMEs based on sharia financing in regional banks. By employing the Analytic Network Process (ANP) approach, the research successfully identifies priority aspects, strategic solutions, and the most relevant empowerment models. The internal aspect identified as a priority is the accessibility of financing products designed to reach MSMEs that have not yet been serviced by formal financial institutions. On the other hand, the external aspect highlights the characteristics of MSME customers as the primary challenge, which requires an educational-based approach to improve financial literacy and awareness of the importance of sharia principles in business. The resulting empowerment model emphasizes strengthening MSME financing as the primary strategy. This model is designed to create an inclusive, just, and flexible financing mechanism, in accordance with Islamic economic principles. The profit-sharing approach serves as the core of the model, reflecting fairness in risk and profit, which is a fundamental principle of sharia. The model also integrates elements of monitoring and mentoring to ensure that financing is optimally utilized and aligns with the empowerment goals. The strategic solutions identified in this study include the development of MSME financing products and portfolios, customer education and socialization, and enhanced monitoring. These solutions are expected to address key challenges such as high financing margins, product mismatches with MSME needs, and the low understanding of sharia principles among business owners. This reflects the importance of a holistic approach that encompasses both financial and non-financial aspects in empowering MSMEs. This study indicates that MSME empowerment based on sharia financing in regional banks relies not only on the accessibility of financing but also requires support that includes education, regulatory strengthening, and synergy among stakeholders. This approach aligns with the values of Islamic economics, emphasizing justice, transparency, and balance in transactions. By providing practical guidance to regional banks, this research can assist in designing more effective and relevant empowerment strategies.

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