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The Effectiveness Of Sharia Microfinance In Encouraging Msme Empowerment In Disadvantaged Areas

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ABSTRACT

This study examines the effectiveness of Islamic microfinance as an instrument in encouraging the empowerment of Micro, Small, and Medium Enterprises (MSMEs) in disadvantaged areas. Using qualitative methods and a case study approach, this study collected data through in-depth interviews with MSME actors, managers of Islamic financial institutions, and other stakeholders involved in the financing ecosystem. The results of the study indicate that Islamic microfinance provides more inclusive access for MSME actors, enabling them to develop their businesses sustainably. In addition, this financing is recognized as being able to increase productivity capacity and expand marketing networks. However, this study also identified challenges, such as lack of knowledge about financial management and marketing, which hinder the effectiveness of the program. Therefore, an integrated mentoring and training program is needed to strengthen the capacity of MSME actors in utilizing this financing. These findings provide valuable insights for policy makers and financial institutions to design more effective financing programs based on the specific needs of MSME actors in disadvantaged areas. This study is expected to be a reference for further studies on Islamic financial management and MSME development in Indonesia.

INTRODUCTION

Empowerment of Micro, Small, and Medium Enterprises (MSMEs) has a very important role in economic development, especially in developing countries such as Indonesia. In the midst of global economic uncertainty, MSMEs are one of the main pillars that are expected to encourage local economic growth and create jobs. However, in underdeveloped areas, the challenges faced by MSME actors are increasingly complex, including access to capital, managerial knowledge, and product marketing. Therefore, an effective and sustainable strategy is needed to increase the competitiveness of MSMEs in the region (Yolanda, 2024).

Sharia microfinance has emerged as one of the alternative solutions to overcome the challenges faced by MSMEs, especially in disadvantaged areas. The concept of sharia microfinance not only focuses on financial aspects, but also includes the principles of justice, transparency, and social welfare. With this approach, it is hoped that MSME actors will not only get access to capital sources, but also get guidance in managing their businesses. However, how effective sharia microfinance is in empowering MSMEs in disadvantaged areas still needs to be studied further (Arif, 2024).

In this context, this study aims to explore the effectiveness of sharia microfinance in encouraging the empowerment of MSMEs in disadvantaged areas. This research not only reveals the status of financing, but also analyzes the impact it has on the sustainability and growth of micro and small businesses. By using qualitative methods that allow in-depth information mining, it is hoped to obtain a more comprehensive picture of the influence of sharia microfinance (Susana et al., 2025).

This research also aims to explore the challenges faced by MSME actors in utilizing this financing. On the other hand, the role of Islamic financial institutions in providing financing that is in accordance with the needs and characteristics of MSMEs in disadvantaged areas will also be analyzed. Through a deep understanding of these conditions, relevant recommendations will be obtained for the development of more effective empowerment policies and programs (Bastian Ahmadan et al., 2025).

In addition, the financing ecosystem in disadvantaged areas is often influenced by external factors such as government regulations, access to infrastructure, and support from the private sector and non-governmental institutions. Therefore, it is important to analyze how all of these elements collaborate in supporting or hindering the effectiveness of sharia microfinance for MSMEs. A comprehensive understanding of this context will provide additional insight into the specific needs that must be met to maximize the potential of MSMEs. It is hoped that the results of this research will not only contribute to the development of theories regarding sharia microfinance and MSME empowerment, but also provide practical benefits for policymakers and related industry players. By knowing the effectiveness and obstacles that exist, it is hoped that a more targeted strategy can be formulated in supporting the growth of MSMEs in disadvantaged areas (Ciek Julyati Hisyam et al., 2024).

Through this research, it is hoped that concrete policy recommendations can emerge that can be implemented by Islamic financial institutions and local governments in order to increase the effectiveness of microfinance. The results of this study are expected to be a reference for further research in the same field and provide guidance for policy makers in formulating better strategic steps for the development of MSMEs.

Sharia microfinance has become one of the strategic instruments in efforts to empower micro, small, and medium enterprises (MSMEs), especially in disadvantaged areas that have limited access to conventional financing. A number of studies show that sharia contract-based financing schemes such as mudharabah, musyarakah, and murabahah are able to increase the productivity and income of MSME actors (Huda et al., 2021; Utami, 2022). On the other hand, sharia-based microfinance institutions such as BMT and BPRS have an important role in reaching marginalized communities, especially in rural areas or disadvantaged areas, with a more flexible financing model and in accordance with the principles of justice (Nurhayati et al., 2023; Widodo et al., 2021). However, the effectiveness of this financing is still influenced by various factors, such as financial literacy, monitoring systems, institutional capacity, and uneven digital infrastructure (Mulyadi, 2023; Wibowo, 2022).

The results of the literature review show that sharia microfinance has a positive impact on women's empowerment, especially in the informal and household sectors, but it has not sufficiently reached the productive sector as a whole in the 3T areas (disadvantaged, frontier, and outermost) (Adhariani, 2020; Asrori, 2020). Most of the research is still local or limited to urban and semi-urban areas, so it does not fully describe the reality of Islamic financing in areas with limited infrastructure. In addition, even though financing digitalization has begun to be implemented through sharia fintech, its penetration in disadvantaged areas is still very minimal, both due to the limitations of the internet network and low digital literacy (Nabila & Ramadhan, 2024). This shows the urgent need to develop an inclusive technology-based approach that is tailored to the socio-economic conditions of the village community.

In terms of sustainability, some studies highlight the challenges of sharia microfinance related to high financing risk (NPF), especially in mudharabah contracts that are open to the risk of loss (Fauzi et al., 2024; Putri & Wibowo, 2024). For this reason, a more contextual risk mitigation model is needed and integrated with a community surveillance system. Meanwhile, the integration between sharia social funds (ZISWAF) and microfinance is still limited and has not been widely studied as a solution for empowering MSMEs comprehensively in disadvantaged areas (Kurniawan et al., 2023). In fact, the potential of ZISWAF is very large to fill the initial capital gap for business actors who are not yet eligible to be financed through commercial financing mechanisms. Therefore, the research gaps that emerge include the lack of longitudinal studies, the lack of research in the 3T area, the lack of optimal use of sharia-based digitalization, and the need for institutional integration between Sharia MFIs, ZISWAF, and local governments. This opens up a large space for more comprehensive and responsive follow-up research to structural challenges in disadvantaged areas.

The novelty of this study lies in its holistic examination of sharia microfinance effectiveness in disadvantaged areas, integrating both financial accessibility and capacity-building aspects. It also explores the role of institutional integration, including sharia financial institutions (BMT, BPRS), digitalization, and sharia social funds (ZISWAF), in supporting MSME empowerment. Furthermore, this study emphasizes the contextual challenges of financial literacy, monitoring systems, and institutional capacity, which are critical yet underexplored factors in prior research. Given the strategic role of MSMEs in local economic development and the limited research on sharia microfinance in disadvantaged areas, this study addresses an urgent knowledge gap. By providing insights into both opportunities and obstacles, the findings offer actionable recommendations for policymakers, financial institutions, and local governments to design more inclusive and sustainable empowerment programs. Ultimately, this research contributes to the theoretical development of Islamic finance and provides practical guidance for maximizing the potential of MSMEs in underdeveloped regions.

Although Sharia microfinance is increasingly viewed as an instrument for enhancing financial inclusion and empowering MSMEs, its effectiveness in the context of underdeveloped regions remains not fully understood. Cahyono and Darmawan (2024) demonstrated that Sharia microfinance plays a role in the empowerment and performance of MSMEs in Gunungkidul, Yogyakarta. However, that study focused on the relationships between Sharia microfinance, empowerment, and MSME performance, whereas the effectiveness of Sharia microfinance in driving MSME empowerment in areas with limited economic access requires further investigation. Research by Mahera et al. (2025) also found that access to Sharia finance in remote areas faces obstacles related to institutions, financial literacy, and limited utilization of Sharia contracts.

Consequently, there is a research gap regarding the limited number of studies that specifically measure the extent to which Sharia microfinance effectively fosters MSME empowerment, rather than merely providing access to financing. Empowerment needs to be viewed comprehensively, encompassing business capacity building, self-reliance, market access, business management capabilities, and business sustainability. Findings by Haekal et al. (2025) reinforce the existence of this gap, showing that while Sharia financing can improve MSME access, non-financial support—such as mentoring and training—remains suboptimal. Therefore, this study aims to address this gap by analyzing the effectiveness of Sharia microfinance in driving MSME empowerment in underdeveloped regions, thereby making an empirical contribution to the development of a more inclusive and sustainable Sharia finance sector.

RESEARCH METHOD

This research method adopts a qualitative approach with an in-depth case study design to explore the effectiveness of sharia microfinance in encouraging the empowerment of Micro, Small, and Medium Enterprises (MSMEs) in disadvantaged areas. The selection of a qualitative approach is based on the purpose of research that wants to understand the phenomenon holistically and reveal the subjective experiences of MSME actors and Islamic financial institutions. Data was collected through three main techniques: in-depth interviews, participatory observations, and document analysis. In-depth interviews were conducted with a number of MSME actors who have received sharia microfinancing, managers of sharia financial institutions, and other stakeholders such as representatives of local governments and MSME associations. The interview process is planned to take place at the respondents' business locations to provide better context, using semi-structured interview guides to explore various aspects, including financing accessibility, experience of using funds, challenges faced, and perceived impact on their business.

Participatory observations were also carried out to capture the dynamics of interaction between MSME actors and Islamic financial institutions, as well as the business processes that took place. In this way, the researcher can observe firsthand the practices of financial management, business management, and social interaction that may not be revealed in the interview. Supporting documents such as the annual report of Islamic financial institutions, MSME profiles, and statistical data related to the regional economy are also collected to provide a more comprehensive perspective on the existing context and conditions.

Data analysis was carried out with a thematic analysis approach, where data from interviews and observations were organized based on emerging themes. This process includes identifying patterns, categorizing information, and drawing relevant conclusions. The use of data triangulation will be carried out to ensure the validity and reliability of research results, by comparing information from various sources and data collection techniques. The results of this analysis will be compiled to present a complete picture of the influence of sharia microfinance on the empowerment of MSMEs, as well as the challenges and opportunities that exist. With this integrated method, it is hoped that the research can provide in-depth and contributory insights in developing MSME empowerment strategies through sharia microfinance in disadvantaged areas, so that it can support more effective policies in the future.

RESULTS AND DISCUSSION

In-depth interviews conducted with Micro, Small, and Medium Enterprises (MSMEs) who have received sharia microfinance yielded rich and diverse information, reflecting the complexity of the relationship between access to financing and economic empowerment at the grassroots level. Most MSME actors stated that sharia microfinance has significantly improved their business conditions, not only in terms of working capital, but also in managerial aspects and marketing strategies. For example, a local handicraft entrepreneur in a disadvantaged area explained that with the financing received, he was able to buy raw materials in bulk at a lower price, thereby lowering production costs and increasing profit margins. He also added that the quality of the product has improved because it can choose raw materials with better quality that were previously unaffordable. Another respondent engaged in the traditional food sector said that access to capital from Islamic financial institutions helped them expand their distribution reach, not only physically but also through simple digital platforms such as social media and local marketplaces. The ability to increase production capacity in tandem with market access has a direct impact on increasing monthly revenue, with some even claiming a 40% increase in turnover after obtaining financing. This phenomenon shows that sharia microfinance is not just a financial instrument, but can also be a catalyst for business growth and transformation, especially when supported by business mentoring and training.

On the other hand, interviews with managers of Islamic microfinance institutions, such as BMT (Baitul Maal wat Tamwil) and BPRS (Bank Pembiayaan Rakyat Syariah), revealed that they consider the financing products offered to have a positive impact on the dynamics of the local economy. They emphasized that the sharia approach allows for the establishment of emotional and spiritual connections between institutions and clients, thereby strengthening trust and social responsibility. Some managers even mentioned that the application of the principles of ta'awun (help) and musyarakah (partnership) has helped create a more collaborative and stable business climate in the community. These institutions also strive to improve Islamic financial literacy through financial management training, marketing strategies, and simple business reporting.

However, this interview also revealed some of the challenges that hinder the effectiveness of sharia microfinance, especially in disadvantaged areas. One of the main challenges is the limited physical and digital access. Some areas are still difficult to reach due to poor infrastructure, so the services of financial institutions cannot be optimal. In addition, the lack of information and understanding of sharia principles and available financial products leads to a low level of community participation. The management of the institution also highlighted the limitations of human resources in carrying out a community-based approach and operational constraints in monitoring financing in remote locations. This is exacerbated by the limited synergy between local governments and microfinance institutions in building an inclusive financial ecosystem that supports financing sustainability.

Furthermore, the management of the institution conveyed the need to develop an adaptive and technology-based business model, such as the use of mobile information systems for the submission and reporting process, as well as collaboration with digital platforms for the marketing of MSME products. On the other hand, from the perspective of MSME actors, there is an aspiration for Islamic financial institutions not only to be providers of funds, but also to play a strategic role in building long-term business capacity. This is in line with the principle of sharia maqashid in Islamic economics, where sharia finance not only pursues economic gains, but also aims to improve the welfare of society as a whole.

From the overall results of the interviews, it can be concluded that sharia microfinance in general has made a significant contribution to the empowerment of MSMEs in disadvantaged areas, especially in increasing capital, production, and distribution. However, structural challenges such as limited access and lack of financial literacy are still major obstacles. Therefore, a holistic approach is needed that combines aspects of financing, education, technology, and policy support to create a more effective, inclusive, and sustainable Islamic microfinance system

Participatory Observation

Participatory observations conducted at the business locations of Micro, Small, and Medium Enterprises (MSMEs) during the study period reflect the complex and meaningful dynamics of interaction between MSME actors and Islamic financial institutions. The interaction built in the field shows that the relationship between the two is not limited to financing transactions alone, but has developed into a mutually supportive social and economic relationship. In various situations, it can be seen that MSME actors who are proactive in establishing communication with the managers of Islamic financial institutions get more than just funds, but also access to knowledge, mentoring, and moral support that are urgently needed to maintain and develop their businesses.

Observations show that MSME actors who routinely engage in dialogue and actively participate in forums or meetings facilitated by Islamic financial institutions tend to get faster responses in financing applications, as well as get convenience in terms of rescheduling installments or business consultations. In this case, open communication is the key to creating sustainable trust. One of the interesting aspects found is that the empowerment process is not only carried out formally, but also through daily informal interactions that form a collaborative culture among MSME actors and institutional managers.

As a concrete illustration, an observation of a group of women businesses in a research area engaged in local handicrafts reveals how the intensity of social relationships is an important capital in building trust and business success. These women entrepreneurs regularly hold weekly meetings, not only to discuss financial issues, but also to share business experiences, discuss product promotion strategies, and discuss design innovation opportunities. In this activity, representatives from Islamic financial institutions were also present as facilitators and companions, which in turn created an atmosphere of egalitarian and trusting dialogue.

More than that, social interaction that is built into a kind of collective learning ecosystem, where MSME actors provide input to each other, and managers of financial institutions become part of the capacity building process. This relationship goes far beyond traditional creditor-debtor relationships and shows the existence of a human-centered finance approach carried out by the sharia-based microfinance system. This is in line with the main values in Islamic economics which emphasize partnership, justice, and blessings in muamalah. Observations also indicate that in an environment where communication runs two-way intensively, MSME actors are more motivated to be disciplined in business management, and faster in taking new business initiatives.

However, not all MSME actors have the same level of participation and openness. Some business units that are less active in building communication with financial institutions tend to experience obstacles in the application process or even business stagnation. This shows that the effectiveness of financing is not only determined by the availability of funds, but also by the quality of interaction and active participation of MSME actors themselves. In this context, an approach to empowerment through sharia microfinance should be designed as a participatory process, where financial institutions are not only present as providers of funds, but also as partners in local economic development. Thus, the findings of this participatory observation confirm that the success of sharia microfinance in encouraging the empowerment of MSMEs in disadvantaged areas is largely determined by the relational aspect between business actors and Islamic financial institutions. The quality of interaction, continuous communication, and trust-based mentoring are key factors that strengthen financing effectiveness and contribute to business sustainability. Therefore, an approach that emphasizes socio-economic synergy needs to be strengthened in the sharia financing scheme in order to respond to real challenges in the field in a more inclusive and effective manner.

The data analysis in this study was carried out using a thematic analysis approach, which allows researchers to identify, analyze, and report patterns (themes) that emerge from qualitative data. This technique was chosen because it is suitable for revealing the subjective experiences of MSME actors and managers of Islamic financial institutions in depth, as well as describing the dynamics of their interaction in the context of Islamic microfinance. Through the process of coding and categorizing data from interviews and observations, a number of main themes were successfully identified, namely: (1) Increasing Access to Capital, (2) Empowerment Through Education, and (3) Challenges and Obstacles. The increase in access to capital reflects the direct impact of the existence of sharia microfinance on the continuity and development of MSME businesses. Most respondents stated that financing provided by Islamic institutions opens up opportunities to make investments that were previously impossible for them to make due to capital limitations. For example, business actors who were previously only able to produce goods on a small scale, after obtaining financing, are able to increase production capacity through the purchase of new machinery or the addition of labor. This phenomenon shows that access to financing in accordance with sharia principles not only provides liquidity, but also accelerates business growth and expands marketing networks.

Empowerment Through Education emphasizes the importance of a non-financial approach in sharia microfinance schemes. Education provided by Islamic financial institutions both through business management training, financial management, and marketing strategies has been proven to help MSME actors in managing their businesses more systematically. Respondents appreciated the training initiatives that not only improved practical knowledge, but also built their confidence in making business decisions. This education also facilitates MSME actors to understand the principles of the sharia contracts they use, thereby minimizing misunderstandings and increasing compliance with financing agreements. In this context, education functions as an empowerment instrument that complements the financial function of financing itself.

Challenges and Obstacles reflect the critical side of the implementation of sharia microfinance. Although there are many benefits felt by MSME actors, some respondents revealed that the administrative process and document requirements are still complicated and confusing, especially for business actors who come from low educational backgrounds. Some of them also stated that there are obstacles in understanding sharia terms such as mudharabah, murabahah, or musharakah, which are considered too technical and not well socialized. In addition, there are concerns from financial institution managers that some of the financing recipients do not have sufficient managerial skills to manage funds effectively, so there is a risk of waste or business failure. This emphasizes the importance of integration between financing and intensive and sustainable assistance.

As a strategy to increase the credibility and validity of the results, this study uses a data triangulation technique, in which information collected through interviews, participatory observations, and supporting documents is compared and analyzed simultaneously. This approach allows for strengthening the validity of findings through cross-confirmation between data sources, as well as helping researchers understand the context more fully and deeply. Through triangulation, the themes identified proved to complement each other and form a consistent picture of how sharia microfinance plays a role in empowering MSMEs, especially in disadvantaged areas.

Thus, the results of this analysis show that the effectiveness of sharia microfinance does not only depend on the availability of funds, but also on the active involvement of business actors, the effectiveness of educational programs, and the simplification of administrative processes by financial institutions. Synergy between financial, educational, and relational aspects is key in ensuring that sharia microfinance is truly a tool of empowerment, not just debt with a sharia label. These results make an important contribution to conceptual understanding and policy practices in the development of inclusive and sustainable Islamic finance-based MSMEs.

Comparison Table

As part of the discussion, the following table illustrates the comparison between the benefits felt by MSME actors and the challenges faced. This provides further insight into how the relationship between sharia microfinance and MSME growth functions in actual practice.

Table 1. Comparison between Perceived Benefits and Challenges Faced by MSME Actors

Perceived Benefits	Challenges Faced
Increased access to capital for business investment	Lack of understanding of financing products
Increased production capacity and quality	Complicated administrative process
Increased revenue and business turnover	Market uncertainty and competition
Managerial education and training support	Limited access to information in remote areas
Increased marketing network	Limitations in knowledge in marketing

The table shows a dynamic relationship between the real benefits received by MSME actors and the structural challenges still faced in the implementation of sharia microfinance. An analysis of this table reveals that although sharia microfinance has a significant positive impact on various aspects of business, there are also obstacles that can hinder the optimization of these benefits, especially if not handled systematically.

The main benefit that is most widely felt is increased access to capital that allows business actors to make productive investments. The capital obtained is generally used for the purchase of business equipment, increasing production capacity, and expanding the business. However, on the other hand, these benefits are often hampered by a lack of understanding of sharia financing products. Many MSME actors do not understand the types of contracts (such as *murabahah*, *mudharabah*, or *musyarakah*) and the obligations that come with them, so that miscommunication or misunderstandings can occur that have a negative impact on financial relationships and financing sustainability.

Sharia microfinance also contributes to increasing production capacity and product quality, which ultimately has an impact on increasing revenue and business turnover. This reflects the strategic role of financing in supporting microeconomic growth. However, the complicated administrative process becomes a serious challenge, especially for business actors with low levels of education or no experience interacting with formal institutions. Procedures that are not simple have the potential to make MSME actors reluctant or afraid to access financial services, while slowing down the distribution of financing that should be inclusive and fast.

MSME actors receive managerial education and training support, which enriches their knowledge of financial management, business registration, and business strategy. This support is very important in reducing the rate of business failure. However, limited access to information in remote areas hinders the equitable dissemination of educational programs. This creates a capacity gap between regions, where MSMEs in cities or regions with better information infrastructure tend to be more advanced than business actors in disadvantaged areas.

Fourth, the increase in marketing networks is a significant result of integrated access to capital and training. Many MSME players are starting to use social media or local e-commerce platforms to expand their market reach. However, limited knowledge in digital marketing and branding strategies is a challenge in itself. Without the ability to communicate product advantages effectively, the increase in production will not automatically be followed by the increase in market demand.

Overall, this comparison reflects that the success of sharia microfinance does not only depend on the provision of capital, but is also highly determined by the ability of MSME actors to understand, access, and utilize the entire supporting ecosystem provided by Islamic financial institutions. Therefore, an integrated approach that combines access to capital, education, mentoring, and bureaucratic simplification is crucial so that sharia microfinance truly functions as a tool for sustainable economic empowerment. The table also makes it clear that each benefit has its share of challenges, and the success of the program will depend on how far financial institutions, governments, and businesses are able to bridge the gap collaboratively.

DISCUSSION

The results of this study consistently confirm that sharia microfinance has great potential in empowering MSMEs, especially in disadvantaged areas that have experienced limited access to the formal financial system. These findings are in line with the views of Mahmood (2019); Utami (2022) which shows that financing based on sharia principles not only provides business capital, but is also able to create a fairer and more participatory business ecosystem. Through in-depth interviews and participatory observations, it is proven that MSME actors use financing funds to increase production capacity, expand distribution reach, and develop business strategies more systematically.

However, sharia microfinance is inseparable from implementation challenges. One of the important findings of this study is that there is a gap in MSME actors' understanding of sharia financing products, including a lack of literacy about the types of contracts, administrative requirements, and submission procedures that are often considered confusing (Lailiyah & Marlina, 2020). This procedural complexity is also reflected in respondents' complaints about the length of the verification process and the lack of technical assistance. Most business actors in disadvantaged areas expect a simpler and more communicative approach from Islamic financial institutions.

In line with that, the theme of empowerment through education is an important point in this study. MSME actors who receive management, basic finance, and marketing training tend to show more stable business management and better revenue growth (Adhariani, 2020; Mulyadi, Y., & Arifin, 2023b). This shows that the educational function of Islamic financial institutions must be positioned in parallel with their financial functions. In this context, the sharia microfinance model that is only oriented towards disbursing funds without being accompanied by continuous training risks producing unproductive or even default financing.

In terms of social relations, observations show that there is a strong synergy between MSME actors and Islamic financial institutions if it is built through open and participatory communication. MSME actors who actively discuss, both in formal and informal forums, tend to receive more support such as ease of access, market information, and even additional training (Adhariani, 2020; Asrori, 2020). In this case, the role of financial institution managers as companions, not only as creditors, plays a key role in creating a mutually beneficial and sustainable business ecosystem.

The thematic analysis in this study shows how three main themes: increasing access to capital, empowerment through education, and challenges and obstacles, interact with each other in influencing the effectiveness of sharia microfinance. The comparison table compiled in this study shows that every benefit obtained by MSME actors has inherent challenges that come with it, so financing programs must be designed with a holistic and adaptive approach to local conditions (Fauzi & Ramdhan, 2024; Putri & Wibowo, 2024). For example, increasing production capacity requires marketing education so that the products produced can be optimally absorbed by the market.

By understanding and overcoming these challenges, Islamic financial institutions can improve the effectiveness of their financing programs as a whole. This includes simplifying procedures, integrated training, and the use of technology to reach business actors in areas that are difficult to access geographically. As suggested by Kurniawan et al (2023), the integration between sharia funding and social funds such as zakat, infaq, and waqf also has the potential to strengthen the impetus for MSME empowerment, especially for business actors who are not yet bankable.

Furthermore, collaboration between local governments, educational institutions, and the private sector is needed to expand the scope and impact of sharia microfinance. MSME empowerment must be part of the local economic development agenda that is oriented towards sustainability and community independence. Policies that support sustainable development, local needs-based training, and institutional strengthening will be an important foundation in realizing the full potential of sharia microfinance schemes in disadvantaged areas (Azzahra & Karim, 2024).

In the context of inclusive economic development, the effectiveness of sharia microfinance in empowering MSMEs in disadvantaged areas can not only be measured from the quantity of funds disbursed, but further from transforming business behavior and increasing the capacity of business actors. The results of this study prove that when financing is accompanied by education, mentoring, and strong relationships, the impact not only improves business performance directly, but also forms a more planned, collaborative, and sustainable entrepreneurial mindset. In other words, the effectiveness of sharia microfinance lies in its ability to mobilize local potential into real economic power

This effectiveness is even more evident when financing is provided with sharia principles that emphasize justice, partnership, and empowerment. Contracts such as musyarakah and mudharabah are not only transactional, but also encourage the active involvement of both parties in the success of the business, making it a form of financing that is integrated with the spirit of mutual cooperation and blessings. This is very suitable to be applied in disadvantaged areas that have community-based local wisdom and strong family values. Thus, within the framework of Islamic values, the effectiveness of financing is not only economic, but also social and spiritual (Adhariani, 2020; Asrori, 2020).

Furthermore, the effectiveness of sharia microfinance is also reflected in the high rate of return and low default rate, especially when MSME actors feel that they have a moral attachment and responsibility to the institution that funds them. This is different from the conventional approach that often places customers as mere objects. In some cases in this study, the social closeness between the managers of financial institutions and the beneficiaries is actually a driving factor for discipline and improvement of work ethic of business actors, which is an indicator of financing success in the long term.

However, in order for this effectiveness to be achieved more evenly, it is necessary to reconstruct the sharia microfinance service model, especially to reach MSME actors in 3T areas (disadvantaged, frontier, and outermost). Financial institutions need to adopt a service system based on a community approach, where financing decisions are not only based on financial statements, but also by taking into account social potential, local reputation, and willingness to develop. The use of technology such as mobile-based financing applications that are simple and easy to understand is also an urgent need to answer the challenges of digitalization in remote areas (Nabila & Ramadhan, 2024a).

The effectiveness of the program will also increase if Islamic financial institutions synergize with local government programs, such as MSME incubation, vocational-based training, and business legality facilitation. With this cross-sectoral approach, microfinance is not only a bridge to access capital, but an integral part of the development package that includes technical assistance, market connections, and strengthening competitiveness. In this case, the social intermediation function of Islamic financial institutions is very vital, because they are in a strategic position between the needs of business actors and the formal economic system which has been difficult to reach for marginalized communities (Fauzi & Ramdhan, 2024; Putri & Wibowo, 2024).

Finally, the success of sharia microfinance in empowering MSMEs in disadvantaged areas is highly determined by the long-term commitment of Islamic financial institutions in building a sustainable empowerment ecosystem. This sustainability is not only supported by a healthy financing cycle, but also by pro-empowerment regulatory support, strong institutional capacity, and the active participation of local communities in managing financing collectively and responsibly. Therefore, sharia microfinance will be truly effective if it is understood not as a mere product, but as an instrument of socio-economic development that has a wide impact on the economic future of the people in areas that have been marginalized.

The effectiveness of sharia microfinance in encouraging the empowerment of MSMEs in disadvantaged areas is not only measured by how much funds are disbursed, but also by the real impact it has on the economic transformation of business actors in the region. In disadvantaged areas that generally face limited infrastructure, access to information, and financial literacy, sharia-based financing schemes offer a more inclusive approach and in accordance with local values, especially for people who have a sensitivity to the interest system (*riba*) in conventional finance.

This research shows that Islamic microfinance is effective in increasing the economic capacity of local communities, especially when accompanied by a personal and relational approach that is characteristic of Islamic microfinance institutions such as BMT and BPRS. MSME actors in disadvantaged areas who receive financing have proven to be able to expand their production units, improve product quality, and create added value that has an impact on household welfare. This effectiveness is inseparable from the ease of financing contracts such as *relatively simple murabahah* (buying and selling with margin) and *musyarakah* (partnership) that provides a collaborative space between financial institutions and business actors.

On the other hand, empowerment also occurs through strengthening business capabilities, not just providing capital. Education that accompanies financing, such as basic financial management training, business registration, and marketing strategies, has proven to play a major role in strengthening business sustainability. This education is very important in disadvantaged areas because the majority of MSME actors in the region start their businesses informally and without long-term planning. Therefore, the effectiveness of sharia microfinance becomes real when financial institutions are present not only as fenders, but also as strategic partners in building business awareness holistically (Asrori, 2020; Mulyadi & Arifin, 2023a).

However, this effectiveness still faces significant obstacles. Geographical factors and limited communication facilities in disadvantaged areas are the main obstacles in reaching business actors widely. Many MSMEs have not been touched by financial institutions because of their remote location, lack of network, or lack of basic administrative documents such as ID cards, NPWP, and business legality. This reduces the effectiveness of the program because access to financing becomes exclusive and does not reach the most needy groups (*the unbanked*). In addition, low digital literacy hinders business actors from utilizing financial technology, which should be a solution to expand the reach of financing.

To overcome this, innovation and program adaptation are very important. For example, the use of Islamic mobile banking services or field financial officers who actively visit remote areas can increase the effectiveness of fund disbursement. In addition, a collaborative approach between Islamic financial institutions and cooperative and MSME offices in the regions, as well as local community organizations, has the potential to create a financing system that is more responsive to the needs and characteristics of local communities (Kurniawan & Fadhlan, 2023; Putri & Wibowo, 2024).

Furthermore, the effectiveness of sharia microfinance in the context of economic empowerment of disadvantaged communities also includes aspects of social transformation, such as increasing the confidence of MSME actors, the emergence of new business community networks, and the formation of stronger local economic cycles. This proves that the impact of financing is not only on economic indicators, but also on social structures at the grassroots level. When MSME actors feel valued, accompanied, and involved in the financing process, they tend to show higher loyalty and entrepreneurial spirit, which in turn strengthens the resilience of the local economy.

By considering all of the above aspects, it can be concluded that the effectiveness of sharia microfinance in empowering MSMEs in disadvantaged areas is contextual, meaning that its success is highly dependent on the quality of relationships, program design, and social environment support. Financial institutions that are able to adapt to regional geographical, social, and cultural conditions will be more successful in maximizing the impact of financing programs. Therefore, in the future, it is necessary to formulate a more flexible, community-based, and integrated sharia microfinance model with integrated local economic development programs.

To understand the effectiveness of sharia microfinance as a whole, it is necessary to look at several interrelated dimensions, namely: (1) *structural dimensions*, (2) *social and cultural dimensions*, (3) *institutional dimensions*, and (4) *spiritual-economic dimensions*. These four dimensions show that effectiveness is not just a financial output, but a transformative process that involves change at the individual, group, and system levels.

In many underdeveloped areas, one of the root problems in empowering MSMEs is structural inequality in economic access. Uneven infrastructure such as roads, transportation, telecommunication networks, and digital connectivity hinder the effectiveness of financing. For example, MSME actors may get financing, but cannot expand product distribution due to logistical limitations. In this condition, financing is only a short-term capital buffer, not a long-term growth driver.

Therefore, the effectiveness of sharia microfinance will be stronger if it is integrated into regional development strategies, such as *the development of integrated MSME areas*, the development of digital-based village markets, or the provision of logistics incentives for business actors who access formal financing. The role of local governments in bridging this is very important, including providing legal protection and fiscal incentives for Islamic financial institutions operating in disadvantaged areas (Azzahra & Karim, 2024).

This study also shows that the effectiveness of financing is greatly influenced by the strength of social capital formed between MSME actors and financing institutions. In many underdeveloped areas, public trust in the banking system is still low due to past trauma or lack of understanding. This is where sharia financing offers advantages because it prioritizes the value of *trust*, *ta'awun* (helping), and *maslahah* (common good).

When the financing approach is carried out by paying attention to local cultural values for example, by using regional languages in socialization or involving community leaders as extension partners the acceptance rate of sharia products increases significantly. This shows that a sociocultural approach is more effective in building *ownership* and active participation of the community in managing financing funds, while strengthening social control over the productive and trustworthy use of funds (Ihsan & Prasetya, 2023).

The effectiveness of sharia microfinance also depends heavily on the adaptability of financial institutions to the needs and limitations of the target community. Islamic financial institutions that successfully empower MSMEs in disadvantaged areas generally show the following characteristics: (a) flexibility in business feasibility assessments, (b) willingness to provide ongoing assistance, (c) the use of informal mechanisms such as business groups as social security, and (d) a simple but transparent reporting and return system. Models such as sharia-based *grameen-style lending* that prioritize collective responsibility between group members have been proven to reduce the risk of default while strengthening social solidarity. In addition, product design that is appropriate for the business season (e.g. seasonal financing for agriculture or fisheries), also increases the effectiveness and relevance of services. So, effectiveness is not just about the amount of funds disbursed, but how contextual and *tailor-made* the design of the program is for the local community (Putri & Wibowo, 2024).

In the framework of Islamic economics, the success of microfinance is not only measured by ROI (return on investment) but also by its contribution to social ethics and business blessings. The principle *of barakah* is an important non-financial benchmark, because MSME actors often view business success not only from the amount of profit, but also from inner peace, life balance, and usefulness to others.

Some respondents in this study stated that they prefer sharia institutions because of their more humane, non-pressure, and comfortable approach. They feel more responsible for the refund because there is no element of interest, and the contract is explained openly. In this case, the effectiveness of sharia financing cannot be separated from the suitability of spiritual values embraced by the local community, and this is the unique advantage of sharia microfinance institutions compared to conventional systems (Adhariani, 2020; Asrori, 2020).

CONCLUSION

This study concludes that sharia microfinance has significant effectiveness in encouraging the empowerment of MSMEs in disadvantaged areas, especially through increasing access to capital, strengthening business capacity, and providing relevant managerial education. Various field findings show that MSME actors who receive financing from Islamic financial institutions are able to develop their businesses more independently, increase production, expand marketing networks, and create economic turnaround that has a direct impact on the welfare of families and local communities. This shows that sharia financing is not just a mechanism for providing funds, but also a tool for social and economic empowerment based on the values of justice and partnership. The success of sharia microfinance cannot be separated from the existence of strong social relations and a participatory approach. MSME actors who are active in dialogue, open to training, and have good relationships with financial institution managers tend to get greater benefits. On the other hand, challenges are still felt in the form of limited Islamic financial literacy, complicated administrative processes, and lack of supporting infrastructure in remote areas. These constraints show that the effectiveness of financing depends largely on the extent to which financial institutions are able to adapt to local realities and social characteristics of communities. In the institutional dimension, Islamic financial institutions that are adaptive to the conditions of disadvantaged regions—by designing simple financing schemes, strengthening education and mentoring, and building cross-sectoral partnerships have more potential to increase the effectiveness of sustainable financing. Therefore, the effectiveness of sharia microfinance is not solely determined by the financial side, but by the synergy between economic, social, educational, spiritual, and institutional aspects that are integrated into a whole empowerment ecosystem.

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