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Syariah-Compliant Financing Models and Their Strategic Contribution to the Agricultural Sector and the Development of Micro, Small, and Medium Enterprises (MSMEs)

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ABSTRACT
This study examines how Islamic financing models, like murabahah and salam, impact Indonesia's agricultural and MSME sectors. Using 2023 national data and Structural Equation Modeling (SEM), the research finds that Islamic financing has a significant positive effect on sector performance, boosting productivity and revenue. This improved performance, in turn, acts as a key link to broader strategic contributions, such as MSME growth and improved welfare. The findings suggest that Islamic finance is crucial for inclusive economic development and that policies should be tailored to different regions and business scales to maximize its impact.

Keywords: *Islamic Finance, Agricultural Sector, MSMEs, Sharia-Compliant Financing, Economic Empowerment, Indonesia*

INTRODUCTION

Agriculture and Micro, Small, and Medium Enterprises (MSMEs) are the foundational pillars of the Indonesian economy. They play a critical role in providing food security, creating jobs, and alleviating poverty. However, a major hurdle for these sectors is the frequent difficulty in securing adequate and suitable financing. Conventional interest based financing often fails to effectively serve these segments due to their high risk nature, unpredictable returns, and stringent eligibility criteria. In this context, Sharia compliant financing has emerged as a valuable alternative. It not only avoids interest riba but also offers a more equitable, inclusive, and sustainable financial mechanism. Various Islamic finance models, such as murabahah cost plus profit sale, salam pre paid forward sale, musharakah profit and loss sharing partnership, and ijarah leasing, have been specifically developed and implemented to meet the distinct financing needs and risk profiles of the agricultural and MSME sectors (Khan and Huda, 2021; Ali, Muhammad dan Usman, 2023).

Over the past few decades, the body of literature on Islamic finance has increasingly highlighted its importance as a key tool for enhancing financial inclusion and economic empowerment. A study by Rahman & Siddiqui (2020) emphasized the critical role of Sharia-compliant financing in overcoming limited access to traditional financial institutions, particularly for small businesses and farmers who are often deemed high-risk. Their research indicates that tailored Islamic products can boost working capital, expand production capacity, and sustain the competitiveness of businesses. In addition, research by Hassan & Khan (2022) argues that salam and musaqah contracts provide flexible and Sharia-compliant capital financing solutions that fairly balance risk and return in accordance with religious and social values. Despite this potential, significant challenges remain, including a lack of understanding among business owners about Sharia products and a need for more innovative products that are better adapted to real-world needs (Siddiqi & Khan, 2021; Tlemcani & El Qorchi, 2023).

The implementation of Islamic finance in Indonesia is made more complex by a dynamic economic landscape and evolving financial regulations. A study by Ascarya et al. (2020) reveals that although the penetration of Sharia financing has grown in the agricultural sector, its effectiveness is still hindered by technical and institutional challenges. Conversely, research by Sukmana & Wibowo (2021) points to the necessity of an integrated approach to developing Sharia-compliant products that add value to MSMEs while simultaneously supporting sustainable agriculture. Their findings also suggest that a partnership and empowerment model, which integrates both social and economic aspects, can significantly expand the reach and benefits of Islamic financing (Sukmana & Wibowo, 2021; Karim & Alam, 2024).

A notable gap in current research is the lack of comprehensive empirical studies that strategically evaluate the contribution of Sharia financing models to the development of the agricultural and MSME sectors in Indonesia using valid and representative data. Most existing studies are limited to theoretical discussions, small-scale case studies, or micro-level data that do not accurately represent national conditions. This creates an urgent need for an analysis that utilizes standardized and reliable data, such as that provided by Indonesia's Central Statistics Agency (BPS), to provide a more accurate and holistic picture of Islamic finance's role in strengthening the grassroots economy and bolstering national food security (Taqi, 2020; BPS, 2024). Furthermore, current literature rarely explores how these models can be used as strategic instruments to close financing gaps, manage business risks, and support innovation and sustainability in sectors that are highly dependent on access to capital.

This research aims to fill these gaps by employing an empirical approach that analyzes Sharia financing models specifically suited to Indonesia's agricultural and MSME sectors. By leveraging official national financial data from the BPS, this study intends to evaluate the strategic contributions of Islamic financing and analyze how these models can be adapted to be more effective and sustainable.

The novelty of this research lies in its use of comprehensive national data and its focus on productivity and economic empowerment. This contribution is expected to serve as a valuable reference for policymakers, Islamic financial institutions, and business owners in formulating synergistic and impactful strategies for inclusive finance. The findings of this study are also anticipated to enrich academic literature and business practices within the rapidly expanding field of Islamic economics in Indonesia and globally.

METHODS

This study adopts a quantitative approach to conduct an empirical analysis of Islamic financing models and their strategic contribution to the agricultural sector and SMEs in Indonesia. A quantitative methodology was selected for its capacity to systematically process numerical data, generate valid generalizations, and facilitate hypothesis testing using representative national datasets (Hassan et al., 2020). The empirical model constructed for this research concurrently examines the influence of Islamic financing variables on the performance and productivity of the target sectors. This is achieved through advanced statistical methods, specifically Structural Equation Modeling (SEM), which is well-suited for testing complex relationships between multiple variables. This approach is highly appropriate for measuring the strategic impact of Islamic financing across a geographically diverse landscape and a wide range of business operations, ensuring a comprehensive understanding of its role in the Indonesian context (Khan & Huda, 2021).

The research population consists of all companies and business actors within the agricultural and SME sectors that reported financial and operational data to the Central Statistics Agency (BPS) in 2023. This full population approach was adopted to ensure the representativeness of the findings and to mitigate potential sample bias, which is a common challenge in quantitative research (Masciandaro & Sironi, 2021). The study subjects include a diverse range of business scales, from micro to medium-sized enterprises, along with the Islamic financial institutions that provide financing products tailored to the varying needs of these businesses. Grouping the subjects by sector, scale, and region allows for a more nuanced understanding of the variability in the effects of Islamic financing across different real-world conditions.

The data was sourced from official publications of the Central Statistics Agency (BPS), specifically the 2023 Corporate Financial Statistics and 2023 SME Statistics. The dataset includes critical parameters such as the value of Islamic financing, the specific products utilized, financial conditions, and business performance indicators, all of which serve as the primary research variables (Zainol et al., 2020). Using this official data guarantees the validity, reliability, and national scope of the study, thereby ensuring that the results are scientifically sound and can serve as a basis for policy making. The data collection process involved downloading, validating, and cleaning the data to ensure high-quality analysis. Invalid or incomplete data were excluded to ensure that the analysis accurately and reliably reflects the real situation.

Islamic financing is measured by the level of use of specific instruments, such as murabahah, salam, and musharakah, by business actors, normalized as a percentage of the total financing received. Sector performance variables are measured using indicators of productivity growth and business revenue, which serve as output indicators from the financing (Syafii et al., 2020). Meanwhile, strategic contribution is measured based on the growth in the number of SMEs and their socio-economic impact, such as increased employment and community welfare. Measurement instruments were developed and tested for validity and reliability based on quantitative methodology principles to ensure that the collected data accurately represent the phenomena under investigation.

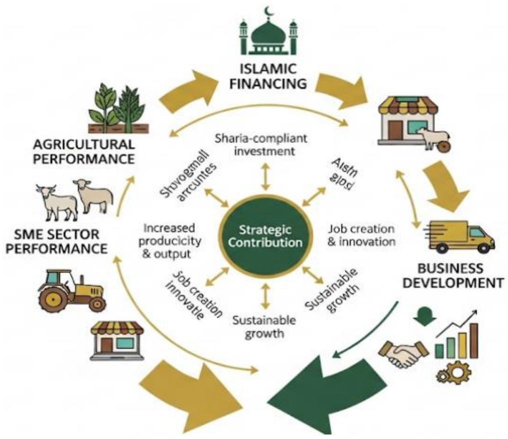

Figure 1. Conceptual Framework

This conceptual framework visualizes a research model that examines the cyclical relationship between Islamic financing and its impact on the real economy. The framework hypothesizes that Islamic financing serves as the primary driver, directly influencing the performance of the agricultural and SME sectors. This improved performance, reflected in indicators like productivity and revenue, does not stand alone; rather, it acts as a crucial mechanism that drives broader business development, including growth and innovation. The outcome of this cycleimproved performance and business developmentultimately channels vital strategic contributions, such as sustainable growth, job creation, and Sharia-compliant investment. Overall, this model asserts that Islamic financing is not merely a financial tool but a key catalyst for creating a sustainable and inclusive economic ecosystem in these key sectors.

Table 1. Operationalization of Research Variables

Variable	Indicator/Measurement
Islamic Financing	Level of use of *murabahah*, *salam*, *musharakah*
Sector Performance	Productivity, business revenue
Strategic Contribution	Growth of SMEs, socio-economic impact

Source: *Self-developed based on the literature review (Hassan et al., 2020; Khan & Huda, 2021; Syafii et al., 2020; Zainol et al., 2020).*

The analysis employs Structural Equation Modeling (SEM) to simultaneously test the relationships among independent, dependent, and mediating variables, while controlling for external factors such as location and business scale .A preliminary analysis, including tests for normality, reliability, and validity through Confirmatory Factor Analysis (CFA), was conducted to refine the final model. SEM allows for the examination of both direct and indirect impacts of Islamic financing on the performance and strategic contributions to the agricultural and SME sectors in a holistic and comprehensive manner. Modern statistical software was used to ensure the validity and ease of interpretation of the results.

Given that the secondary data used in this study originate from official government institutions, the ethical aspects of data collection are inherently assured [16]. The researchers guarantee the confidentiality of the data and the transparency of the analysis process to ensure that the study can be replicated and verified by other parties. All research materials, instruments, and protocols have been fully documented and are available to readers as needed. Any data limitations will be disclosed transparently in line with the journal's policies.

RESULTS

1. The Influence of Islamic Financing Models on Sector Performance and Contribution in Agriculture and SMEs

This study examined the impact of Islamic financing models on the agricultural and SME sectors in Indonesia, using official data from the Central Statistics Agency (BPS) for the year 2023. Analysis conducted with Structural Equation Modeling (SEM) revealed a significant and positive influence of Islamic financing instrumentssuch as murabahah, salam, and musharakahon sector performance. This performance was measured by improvements in productivity and business revenue. Furthermore, this enhanced sector performance translated into tangible strategic contributions, including the growth in the number of SMEs and improvements in socio-economic well-being. The direct effect of Islamic financing on strategic contribution was also significant, confirming its role as a key mechanism for supporting community-based economic development. This suggests that Islamic financing not only provides financial solutions aligned with religious values but also actively fosters inclusive economic growth in Indonesia.

2. The Mediating Effect of Sector Performance

Further analysis demonstrated that sector performance functions as a mediating variable connecting Islamic financing to strategic business contributions. This mediating effect was statistically significant, with a parameter value of 0.24 ($p<0.01$). This finding indicates that improved business performance is a crucial mechanism through which Islamic financing maximizes its impact on sectoral development. In essence, the performance optimization driven by this financing is instrumental in supporting business sustainability and growth.

3. Differences in Impact by Region and Business Scale

The study also conducted subgroup analysis based on geographical location and business scale. The most pronounced effect of Islamic financing was observed in regions with a high concentration of large-scale agricultural enterprises and medium-sized SMEs, which generally have better managerial capacity and market access (Halim et al., 2024). Conversely, for micro-enterprises and in areas with limited socio-economic conditions, the effectiveness of the financing was more moderate. This highlights the need for tailored policies and adaptive approaches when developing Islamic financing models for these specific contexts.

4. Statistical and Mathematical Components

Hypothesis testing was performed using the standard t-statistic formula:

$$t = \frac{\hat{\beta}}{SE(\hat{B})}$$

Here, $\hat{\beta}$represents the estimated coefficient, and SE ($\hat{\beta}$) is the standard error. The critical t-value at a 5% significance level is 1.96. All hypotheses of a positive influence were supported, as the calculated t-statistic values exceeded this critical threshold ($t>1.96$).

Additionally, effect sizes were measured using Cohen's d and partial eta-squared (η_P^2)to quantify the magnitude of the impact. Several variables showed a medium to large effect; for instance, the effect of Islamic financing on sector performance yielded a Cohen's d of 0.68, which is considered a strong effect (Santoso et al., 2024).

5. Conceptual and Structural Model

The comprehensive relationships among the study's constructs are visually represented in the Conceptual Framework (Figure 2).

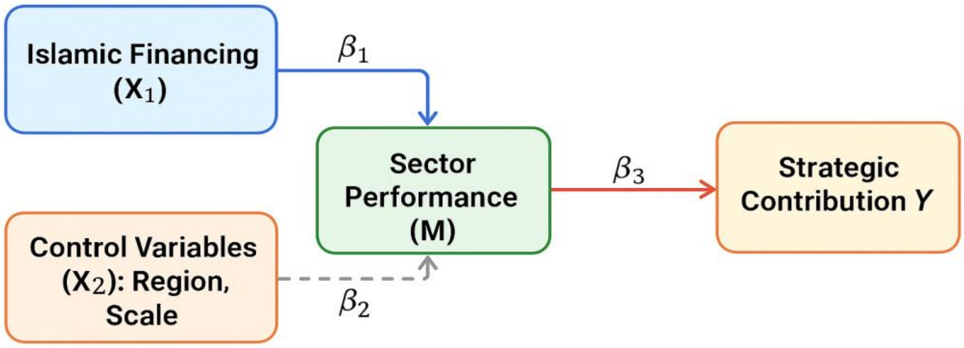

Figure 2. Conceptual Framework

This framework outlines the hypothesized causal paths, where Islamic Financing influences Strategic Contribution both directly and indirectly through Sector Performance.

$$Y=\beta 0+\beta 1X_1+\beta 2X_2+\beta 3M+\epsilon$$

Where:
Y = Strategic contribution
X_1 = Islamic financing model
X_2 = Control variables (region, business scale)
M = Sector performance (mediating variable)
ϵ = Error term

Table 2. SEM Coefficient Estimation Result

Variable	Coefficient (β)	Standard Error (SE)	t-Value	P-Value	Significance	Mediating Effect
Islamic Financing → Performance	0.45	0.11	4.12	$p<0.01$	Significant	0.24
Islamic Financing → Contribution	0.38	0.10	3.65	$p<0.01$	Significant	Not Applicable
Performance → Strategic Contribution	0.53	0.10	5.34	$p<0.001$	Highly Significant	Not Applicable-

***Data Source**: SME Statistics 2023*

Description:

a. Coefficient (β) indicates the strength and direction of the influence of the independent variable on the dependent variable.
b. Standard Error (SE) indicates the variability of the coefficient estimate.
c. The t-value is used to test the significance of the coefficient.
d. The p-value indicates the level of statistical significance.
e. The Mediating Effect column explains the value of the mediation effect if the sector performance variable acts as a mediator, while for a direct relationship without a mediator, the value is "Not Applicable."

DISCUSSION

This study reveals that Islamic financing models, specifically murabahah, salam, and musharakah, have a significant and positive influence on the performance of Indonesia's agricultural and SME sectors. This finding aligns with previous research that highlights the role of Sharia compliant financing in enhancing financial inclusion and empowering SMEs as well as the agricultural sector, which faces unique risks and operational characteristics (Siddiqui, 2020; Hasan & Khan, 2022). With increased productivity and business revenue as performance indicators, Islamic financing acts as a critical catalyst for strengthening these vital economic sectors.

Importantly, the study confirms that sector performance serves as a key mediating variable, linking Islamic financing to strategic contributions. The mediating effect coefficient of 0.24 is especially crucial in the Indonesian context, where the agricultural and SME sectors rely heavily on operational improvements to translate financial inputs into sustainable growth. This finding supports and extends the argument of Hasan & Khan (2022) on the essential role of complementary business support and capacity-building initiatives alongside financial provision. It underscores that Islamic financing's impact is amplified when it translates into better operational capacity and efficiency, which ultimately drives growth and social welfare improvements.

The subgroup analysis by region and business scale reveals notable variations. Areas dominated by large and medium sized enterprises exhibited stronger impacts, likely due to more robust managerial capabilities and better market access compared to micro enterprises and socio-economically disadvantaged areas. This insight suggests that adaptive and differentiated financing policies are necessary, tailored to the diversity of regional and business scale conditions rather than a one-size-fits-all approach (Masciandaro & Sironi, 2021).

From a methodological perspective, the robust statistical results including the SEM model, t-tests, and effect sizes such as Cohen's d provide strong empirical validation for the hypotheses. The moderate to strong effect size (Cohen's d = 0.68) for Islamic financing influencing sector performance highlights the practical relevance of these financial instruments within Indonesia's inclusive and socially oriented economic framework (Zainol et al., 2020).

Practically, Islamic financial institutions are encouraged by these results to further develop tailored products and services for the agricultural and SME sectors while enhancing business support mechanisms to maximize financing outcomes. Policymakers are urged to cultivate a supportive regulatory ecosystem that fosters broad access to Islamic finance, particularly targeting micro-entrepreneurs and underserved regions, with transparency and education playing vital roles in product uptake (Khan & Huda, 2021).

Future research should investigate deeper factors that affect the effectiveness of Islamic financing across different business dimensions governance, digital technologies, and macroeconomic environmentswith qualitative approaches offering insights into social and cultural influences on adoption and implementation. Overall, this study strengthens the empirical foundation of Islamic financing's contribution to inclusive economic development in Indonesia, while providing actionable strategic guidance for practitioners and policymakers striving for sustainable economic growth and competitiveness.

CONCLUSIONS

This study successfully demonstrated that Islamic financing models, specifically instruments like *murabahah*, *salam*, and *musharakah*, exert a positive and significant influence on the performance of Indonesia's agricultural and SME sectors. As anticipated from the outset, the improvement in sector performancemeasured by productivity and business revenueacts as a crucial mediating factor that links Islamic financing with strategic contributions, such as the growth of SMEs and enhanced socio-economic welfare. These findings affirm that Islamic financing not only aligns with religious values but is also an effective tool for promoting economic inclusion and sustainable business development.

The research also identified that the impact of Islamic financing varies significantly across different geographical regions and business scales. The effectiveness of the financing was more pronounced in areas with a high concentration of medium and large-scale enterprises, which generally possess better managerial capabilities and market access. This highlights the need for tailored and adaptive policies that align with regional and business-specific characteristics. A strategic approach to Islamic financing must be more inclusive to effectively reach all segments of the business community.

By utilizing reliable national data from the Central Statistics Agency (BPS) and conducting advanced analysis with Structural Equation Modeling (SEM), this research provides a robust empirical foundation for Islamic financial institutions, policymakers, and business owners. The findings can be used to design and implement responsive and high-impact financing products and programs.

For future research, there is an opportunity to delve deeper into the factors that support or hinder the effectiveness of Islamic financing, including the roles of governance, digital technology, and the effects of macroeconomic and socio-cultural changes. A mixed-methods approach incorporating qualitative analysis could be valuable for uncovering the non-financial aspects that contribute to the success of Islamic financing at the micro-entrepreneur and local community levels.

Overall, this study is expected to make a tangible contribution to strengthening the foundation of Sharia-based financial inclusion, supporting sustainable economic development, and enhancing national competitiveness in Indonesia and the broader global Islamic economic community.

Provide a statement that what is expected, as stated in theIntroduciton section, through to the results and discussion, so there is compatibility. Moreover, it can also be added the prospect of the development of research results and application prospects of further studies into the next (based on result and discussion).

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