

THE EFFECT OF *MUDHARABAH* FINANCING AND FINANCIAL MANAGEMENT ON THE DEVELOPMENT OF MSMEs IN THE TOURISM AREA OF TULUNG SUBDISTRICT

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Abstract

MSMEs are essential in creating jobs and supporting economic growth, especially in Tulung, Klaten, Central Java tourist areas. However, capital constraints and financial management are challenges that often hinder the development of MSMEs. To solve capital problems, mudharabah financing was chosen as a Sharia-based alternative that can be accessed without collateral and interest. On the other hand, implementing good financial management is believed to optimize the development of MSMEs. This research aims to determine the influence of mudharabah financing and financial management on developing MSMEs. Quantitative methods were used with an associative approach involving 60 respondents through purposive sampling. Primary data was obtained through distributing questionnaires, and analysis was carried out using multiple linear regression. The research results show that mudharabah financing and financial management, both partially and simultaneously, significantly affect the development of MSMEs.

Keyword: *MSMEs Development, Mudharabah Financing, Financial Management*

A. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are economic activities carried out by the majority of Indonesian people and are their primary source of income (Novitasari, 2022). According to statistics on small and medium-sized enterprises (SMEs) in Indonesia, annual growth rates for SMEs in Indonesia are consistently high. With an average yearly growth rate of 0.89%, micro, small, and medium-sized enterprises (MSMEs) rose from 64.19 million units in 2018 to 66 million in 2023. Many small and medium-sized enterprises (SMEs) are essential to Indonesia's economy. Over 61%, or almost IDR 9,580 trillion, of Indonesia's GDP in 2023 came from micro, small, and medium-sized enterprises (MSMEs). One hundred seventeen percent, or 117 million people, are employed by MSMEs in Indonesia (Kadin Indonesia, 2024).

Tourist areas with their attractions will positively impact the community and motivate them to establish micro, small, and medium enterprises (Hidayat & Ariyun Anisah, 2023). Soebiyantoro (2009) in (Cahya, 2020) stated that the tourism sector in Central Java has excellent potential to be further developed, and this development can encourage the growth of other sectors, especially MSMEs. One of the districts that plays an essential role in developing MSMEs is Klaten Regency. Its strategic location between Yogyakarta and Surakarta makes Klaten an economic center in Central Java (Aliyah, 2022). In addition, Klaten is known by the nickname "City of a Thousand Spring Springs" because of the many springs or springs that are tourist attractions, which also encourage the development of the local MSME sector.

One example of an area showing significant development in the MSME sector is the Tulung Subdistrict tourist area in Klaten Regency, Central Java Province. It has several popular tourist attractions such as the Cokro Spring Object (OMAC), Umbul Kemanten, Umbul Pelem Water Park, Candramaya Pool and Resort, Pesona Alam Tirta Swimming Pool, Lumban Tirta Swimming Pool, Ciblon Ndeso, Kipas River Tubing Adventure, and Umbul Nilo. The many tourist destinations in Tulung not only attract local and foreign tourists but also provide excellent opportunities for the development of MSMEs in the area. This data shows that MSMEs in the Tulung tourism region have grown significantly, according to statistics from the Klaten Regency Cooperatives, Small and Medium Enterprises and Trade Service (DKUKMP):

Table 1. Growth of MSMEs in the Tulung Subdistrict Tourism Area

Year	Number of MSMEs (Units)	Growth (%)
1972-1982	9	-

1983-1993	39	333%
1995-2005	105	169%
2006-2016	159	51%
2017-2023	659	314%
Average		217%

Source: Author's observations at DKUKMP Klaten Regency, 2024

From 1972 to 2023, the number of micro, small, and medium-sized enterprises (MSMEs) in the Tulung tourist region increased significantly, as shown in the table above. with the most significant growth in 2017-2023, reaching 314% or an average of 217% per year. Interestingly, this increase is higher than the national average. The increase in the number of MSMEs does not guarantee that this sector is accessible from various obstacles. What follows is a categorization of the five most common challenges encountered by MSMEs: First, ineffective management; second, a lack of motivation; third, outdated technology; and last, insufficient funds to cover operational expenses. (Heryanto, 2023).

Working capital is the primary issue, as seen by the problem categorization above. Working capital is the main problem affecting MSMEs' development because capital is an essential element in business (Nasution & Anggraini, 2022). Capital for MSMEs can be obtained from financial institutions through credit or financing. However, strict requirements in conventional banks, such as collateral and high interest, are challenges for MSMEs who have difficulty meeting these obligations (Berlian et al., 2023).

As an alternative, Islamic financial institutions offer interest-free financing by Islamic principles that prohibit usury (Barakah et al., 2021). Islamic banks also provide capital without collateral, facilitating MSME access to capital (Islam & Ahmad, 2020). With a profit-sharing system, MSMEs are more flexible in managing business risks, such as in *mudharabah* financing products aimed at the MSME sector.

In addition to capital issues, another vital obstacle is financial management, which many MSMEs have not implemented (Alviani & Fatimah, 2023). Financial management can help MSMEs plan long-term finances, optimize funding sources, and support sustainable business development (Dewi et al., 2022).

Several researchers have conducted previous research on *mudharabah financing* and financial management. Research conducted by (Azhar et al., 2022) and (Barakah et al., 2021) explored how *mudharabah* finance has impacted the growth of micro, small, and medium enterprises (MSMEs) (Asprila et al., 2021) *mudharabah* financing on MSME owner customers from the perspective of economic change. On the other hand, research on financial management has been conducted by (Umami, 2019) investigating the impact of fiscal management on the growth of MSMEs. In contrast, research (Alviani & Fatimah, 2023) brought attention to the impact of HR and financial management on raising revenue for MSMEs.

There seems to be a lack of literature on how *mudharabah* finance and financial management affect the growth of micro, small, and medium enterprises (MSMEs) in Tulung Subdistrict's tourist region. That is why this research intends to examine this topic. This work also anticipates additional research on *mudharabah*, financial management, and MSMEs' growth.

B. LITERATURE REVIEW

Financial Inclusion

Financial inclusion is the condition where everyone can access financial products and services. It also ensures that financial services and credit or financing are affordable (Sari & Kautsar, 2020). Thus, all people, including MSMEs, can use financial support for additional capital and encourage business growth.

Financial Literacy

A financially literate person has the information, abilities, and mindset to handle their money wisely. In addition, being financially literate means having the knowledge and self-assurance to make sound financial choices (Sari & Kautsar, 2020). Better financial management, resource optimization, and risk mitigation are all outcomes of financially literate company players, who contribute to economic progress and prosperity.

MSMEs

Independently managed, productive business units with certain numerical and financial constraints are known as micro, small, or medium enterprises (MSMEs). They play an essential role in

developing countries such as Indonesia. The existence of MSMEs creates job opportunities and reduces unemployment (Cahyani & Khoiriyah, 2023).

Small and medium-sized businesses are categorized according to their net worth and yearly revenue as stated in Article 6 of Law Number 20 of 2008 covering Micro, Small, and Medium Enterprises: With an annual revenue cap of 300 million IDR, micro-businesses may have a net value of up to 50 million IDR (not including land and structures). Excluding property and buildings, small firms have assets between 50 million and 500 million IDR and have an annual turnover between 300 million and 2.5 billion IDR. Companies in the medium-sized category have a yearly revenue of between IDR 2.5 billion and IDR 50 billion and a net worth between IDR 500 million and IDR 100 billion. (Nasution & Anggraini, 2022).

Mudharabah Financing

Financing is the distribution of funds from parties with excess funds to parties who need them to support investment, either independently or through financial institutions (Cahyani & Khoiriyah, 2023). The *mudharabah* contract in Islamic financial institutions involves cooperation between the fund owner (shahibul maal) and the fund manager (mudharib), where 100% of the capital is given to productive activities according to sharia, with profits divided according to the agreed ratio. At the same time, losses are borne by the shahibul maal except due to negligence of the mudharib (Barakah et al., 2021). Indicators of the success of *mudharabah* financing include ratios, additional business capital, and financing according to needs (Radhita Phonna, 2018) in (Ardiana et al., 2021)

Research (Azhar et al., 2022) finds that *mudharabah* funding has a favorable effect on the growth of MSMEs, indicating that MSMEs' development will be more significant by the level of *mudharabah* financing.

H₁: *Mudharabah* financing (X₁) has a positive and significant effect on the development of MSMEs (Y)

Financial management

Entrepreneurs must carry out financial management at all business scales (Umami, 2019). This process involves acquiring, funding, and controlling assets to achieve company goals (Alviani & Fatimah, 2023). According to Sutrisno (2009) in (Umami, 2019), financial management indicators include decision-making, planning, management, control, and business management.

Research conducted by (Umami, 2019) demonstrates that financial management has a beneficial effect on the expansion of MSMEs, suggesting that better financial management is compatible with a rise in their development.

H₂: Financial management (X₂) has a positive and significant influence on the development of MSMEs (Y)

C. METHOD

A quantitative technique with an associative approach is used in this investigation. Small and medium-sized enterprise (SME) players in the Tulung Subdistrict tourist region who expanded their businesses using *mudharabah* funding were the subjects of this research. Referring to the research of Adisti Cahyani and Rahmawati Khoriyah in 2023, which utilized Roscoe's theory, a sample of 60 MSME actors was selected for this study. The researchers used a purposive sampling technique to ensure that only those actors met the criteria for using *mudharabah* financing at that location. Measurements were taken using a 5-point Likert scale, and the data used in this research was derived from primary sources, such as the distribution of questionnaires to respondents. In order to understand the growth of MSMEs in the Tulung Subdistrict tourist region, primary data was gathered from the DKUKMP of Klaten Regency. Secondary data was obtained from the KADIN website, which offers statistics on MSME development nationwide, as well as from other sources. Multiple linear regression analysis in SPSS 25 is the tool used for data analysis, which involves several important statistical tests. Some of these include tests of the validity and reliability of instruments, as well as tests of classic assumptions such as normality, multicollinearity, and heteroscedasticity. This test also includes model accuracy tests, including the F test and coefficient of determination (R^2), as well as hypothesis tests such as the T-test.

D. RESULTS AND DISCUSSION

1. Results

Results from validity, reliability, and assumption fulfillment assessments indicate that this research is entirely accurate. All of the indicators in the measured variable may be trusted since the

research instrument, which is a questionnaire, is valid and trustworthy at what it claims to be. Furthermore, the research encountered no issues with classical assumptions, including tests for heteroscedasticity, multicollinearity, and normality. Following SPSS data processing, the following findings on model correctness and hypothesis testing were obtained:

Model Accuracy Test F Test (Simultaneous)

Table 2. Simultaneous Significance Test Results (Statistical Test F)
ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	189.622	2	94.811	72.920	.000 ^b
	Residual	74.111	57	1.300		
	Total	263.733	59			

a. Dependent Variable: Development of MSMEs

b. Predictors: (Constant), Financial Management, Mudharabah Financing

The F-table value is 3.16, derived from the formula $df_{n2} = n - n \text{ independent variables} - 1$ (60-2-1). The computed F-value of 72.920, which is larger than the F-table value of 3.26, and a significance value of 0.000, which is lower than the significance threshold ($\alpha = 0.05$), is the outcome of the F-test. This shows that *mudharabah* financing and financial management significantly influence the development of MSMEs in the tourism area of Tulung Subdistrict. This influence reflects that both independent variables (*mudharabah* financing and financial management) simultaneously contribute to increasing the development of MSMEs.

Determination Coefficient Test (R^2)

Tabel 3. Determination Coefficient Test Results (R^2)
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.848 ^a	.719	.709	1.140

a. Predictors: (Constant), Financial Management, Mudharabah Financing

Based on the table above, the modified R^2 value (determination coefficient) is 0.709 (70.9%), which suggests that the *mudharabah* finance and financial management variables provide 70.9% of the effect on the growth of MSMEs, according to the findings of the summary model test (R^2). Other factors not accounted for in this model impact the remaining portion, which is 29.1% (100% - 70.9%). According to these data, the modified R^2 is near one, suggesting that the independent factors adequately explain the dependent variable.

Hypothesis Testing T-Test (Partial)

Table 4. Significance Results of Individual Parameters (Statistical Test t)

		Coefficients^a			T	Sig.
Model		Unstandardized Coefficients		Standardize d Coefficients		
		B	Std. Error	Beta		
	(Constant)	4,548	1,777		2,559	.013
1	<i>Mudharabah</i> Financing	.621	.082	.548	7,538	.000
	Financial Management	.405	.056	.522	7,179	.000

a. Dependent Variable: Development of MSMEs

From Table 4 of the T-test results above, the analysis and conclusions are as follows:

1. Using a 0.05 threshold of significance, 60 samples (N), 2 independent variables (K), and $NK = 60 - 2 = 58$, the t table will provide a result of 2.00172;
 - a. H1 is acceptable since, according to the table above, the computed t value (7.538) is more than the t table value (2.00172) and the significance level is less than 0.05 (0.000 is less than 0.05) for the *mudharabah* funding variable (X1). Therefore, it is reasonable to assume that *mudharabah* funding (X1) moderates the growth of MSMEs (Y).
 - b. However, because the computed t value ($7.179 > 2.00172$) and significance < 0.05 ($0.000 < 0.05$) for the financial management variable (X2), we may accept H2 as accurate. The growth of micro, small, and medium-sized enterprises (MSMEs) is, thus, impacted by financial management (X2).
2. Interpretation of the multiple linear regression equation:

$$Y = 4.548 + 0.621 X_1 + 0.405 X_2$$
 - a. Because 4.548 is a constant, the average development of MSMEs is 4.548 when *mudharabah* finance (X1) and financial management (X2) are set to 0.
 - b. The growth of MSMEs is enhanced by 0.621 percentage points for every one-point rise in *mudharabah* finance, supposing all other factors stay constant, according to the regression coefficient of 0.621.
 - c. When controlling for all other factors, a regression coefficient of 0.405 for finance management suggests that a gain of 1 point in this area boosts MSME growth by 0.405.

2. Discussion

Mudharabah Financing on the Development of MSMEs

The first hypothesis proposes that micro, small, and medium-sized enterprise (MSME) growth is favorably and substantially affected by *mudharabah* finance. The significance value of the T-test is $0.000 < 0.05$, indicating that the test findings demonstrate a positive and significant relationship between *mudharabah* finance (X1) and the growth of MSMEs (Y). This financing helps capitalize MSMEs, increases production, and supports more planned business development. A study by Azhar, Diyan Yusri, and Rizka Wulandari (2022) shows that this financing can increase the working capital of MSMEs, with an average increase in capital of 19.97% after receiving funds from Islamic financial institutions. Most respondents experienced a significant capital increase, reaching more than IDR 31,000,000.00, which reflects a growth of 63.1% (Azhar et al., 2022).

In addition to capital, *mudharabah* financing helps MSMEs maintain financial stability because of its flexible installment scheme and term and profitable profit-sharing ratios. Research by Adisti Cahyani and Rahmawati Khoiriyah (2023) emphasized that the profit-sharing system replaces interest so that although income fluctuates, both parties do not suffer losses (Cahyani & Khoiriyah, 2023). Increased capital also facilitates the addition of workers and timely salary payments, as described by Siti Barokah and Ayu Noviani Hanum (2016), where the increase in the workforce reached 33%, and profits increased from IDR 5,620,000 to IDR 10,220,000, reflecting an increase of 82% (Barokah & Hanum, 2016).

This financing also expands the reach of the MSME market, involves consumers from outside the region, and increases sales and income. As explained in previous research (Cahyani & Khoiriyah, 2023), *mudharabah* funds used for product inventory succeeded in attracting more customers. Overall, this financing support strengthens the foundation of MSME businesses in Tulung Subdistrict, enabling sustainable growth and achieving higher business targets.

The Effect of Financial Management on the Development of MSMEs

The second theory proposes that developing MSMEs are favorably and substantially impacted by financial management. A positive and substantial influence of financial management (X2) on the growth of MSMEs (Y) was discovered by the regression analysis, as supported by the significance value of the T-test of $0.000 < 0.05$. Sound financial management supports business development by providing a basis for effective decision-making. As Nailariza Umami (2019) has noted, financial management is essential for all business scales, including MSMEs. Good management allows businesses to meet applicable standards and provides a foundation for more stable development (Umami, 2019).

Essential factors in MSME financial management include using financial reports for targeted decision-making. Indra Alviani and Vidya Fatimah's (2023) findings show that MSMEs with structured financial management experience increased business income. Efficient budgeting also supports the

optimal allocation of funds for business operations and helps business actors plan growth strategies and manage capital appropriately (Alviani & Fatimah, 2023).

Another significant aspect is the separation of personal finances from business finances, which helps MSMEs monitor cash flow more transparently and avoid using business funds for personal purposes. Previous research shows that this practice positively impacts financial reports and business performance, supporting business sustainability and growth (Dewi et al., 2022). With sound financial management, MSMEs in the Tulung Subdistrict tourism area can achieve business stability, increase turnover, and expand the market.

E. CONCLUSION

Based on the research results, mudharabah financing is proven to have a positive and significant influence on the development of MSMEs, reflecting its role in overcoming limited business capital. Apart from that, sound financial management also contributes positively and significantly to the development of MSMEs by supporting the efficiency and effectiveness of business management. Simultaneously, mudharabah financing and financial management significantly influence the development of MSMEs, showing the importance of synergy between adequate access to funding and optimal financial management in supporting business growth and sustainability.

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