



Perceptions and Practices of Sharia Based Finance in Post Pandemic MSMEs: A Qualitative Study in Urban-Rural Areas

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Abstract: *The COVID-19 pandemic has affected the financial stability of MSMEs in Indonesia, especially in terms of financial management and access to financing. In the context of post-pandemic economic recovery, sharia based financial systems are gaining traction as a more ethical and sustainable alternative. This study aims to explore the perceptions and practices of micro, small, and medium-sized enterprises (MSMEs) towards Islamic finance by comparing the dynamics in urban and rural areas. This research uses a qualitative approach with a phenomenological method. Informants were purposively selected from MSME players who have used or been exposed to Islamic financial services. Data collection techniques included in-depth interviews and field observations, which were analyzed using Miles and Huberman's thematic model. The results showed that urban MSME players have a higher understanding of Sharia principles and are more active in utilizing Islamic financial products, such as murabaha financing and Islamic savings. In contrast, rural MSME players rely more on informal systems based on community trust and face more access barriers. Differences in motivation, literacy, and social context are key factors that influence financial behavior in both regions. In conclusion, Islamic financial inclusion among MSMEs necessitates a participatory and contextual approach, one that takes into account local characteristics and the structural challenges faced by businesses.*

Keywords: *MSMEs, perceptions, post-pandemic, Sharia finance, urban-rural, qualitative study*

1. Introduction

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in Indonesia's economy, contributing more than 60% of the Gross Domestic Product (GDP) and employing around 97% of the national workforce (Muchlis, 2020; Aisyah, 2020; Syamsuddin, 2023). During the COVID-19 pandemic, MSMEs are among the most severely affected sectors, primarily due to limited access to capital and a decline in consumer purchasing power (Rahutami, 2021; Ramadhan & Novitasari, 2023;

Alidar, 2023). This economic uncertainty encourages MSME players to seek alternative financing that is not only efficient but also aligned with ethical values, including Sharia principles.

The growth of Islamic banking and sharia-based fintech in Indonesia continues to increase; however, its adoption by MSMEs remains relatively low and uneven, particularly in rural areas (Khasanah & Al'Asqolaini, 2023; Isman, 2024; Yudha, 2021). In the context of post pandemic economic recovery, an in-depth understanding of MSME actors' perceptions of Islamic finance is crucial to ensure that empowerment policies are more effectively tailored to their needs. This research aims to address the gap in understanding and practice.

Data from the Ministry of Cooperatives and SMEs indicate that the number of MSMEs is expected to rise again to 66.2 million units by 2023, with 25.5% of them projected to be exposed to Islamic financial services, a significant increase from 17% in 2019 (Muchlis, 2020; Syamsuddin, 2023; Firdausy, 2021). In Rogers' innovation adoption theory and Ajzen's theory of religiosity, perceptions of value, trust, and efficiency play a crucial role in small business owners' financial decision-making.

Figure 1. Development of MSMEs and Adoption of Islamic Finance 2019-2023.



Several studies have addressed aspects of Islamic finance in MSMEs, such as the effectiveness of murabaha financing (Kisworo, 2022), the success of BMTs during the pandemic (Abdillah, 2021), and the perception of urban communities towards Islamic banks (Istiqomah, 2022). However, the majority of studies are still quantitative and focus on financial institutions, rather than on the perceptions and actual practices of the businesses themselves.

To date, there have been few studies that have thoroughly examined the perceptions and practices of Islamic finance among MSME actors, particularly from a qualitative perspective and within the context of *urban-rural* areas. Differences in geographical settings can affect patterns of understanding, preferences, and access to sharia-based financial services (Ramadhan, 2023; Aisyah, 2020; Rahutami, 2021).

This research offers a new approach by exploring the narratives, direct experiences, and rationales of MSME actors in choosing and practicing sharia-based finance after the pandemic. This approach provides space for the voice of business actors and the potential for financial culture transition at the grassroots level (Yudha, 2021; Isman, 2024; Habibie, 2024).

This research aims to:

- 1) Identify the perceptions of urban and rural MSME players towards Islamic financial principles and products.
- 2) Explore actual practices in managing sharia-based finance post-pandemic;
- 3) Develop strategic recommendations for enhancing Islamic financial inclusion among micro, small, and medium-sized enterprises (MSMEs) in diverse regional contexts.

This research has several important benefits that can be appreciated from both theoretical and practical perspectives. Theoretically, this research contributes to the development of Islamic financial management science, particularly in understanding the perceptions and practices of MSMEs in both urban and rural contexts following the pandemic, employing a qualitative approach. The resulting findings can enrich the literature on the adoption of Islamic finance based on values, local culture, and the direct experience of business actors. From a practical perspective, the results of this study can serve as a reference for MSME actors in managing sharia finance that is more contextual and responsive to post-pandemic challenges. Additionally, Islamic financial institutions can utilize the findings of this study to develop more targeted empowerment strategies and products. At the same time, the government and policymakers can use it as a basis for designing more effective financial inclusion policies in various regions. Socially, this research is expected to promote increased literacy and public awareness of the importance of an ethical and equitable financial system, as well as support the development of a sustainable and Sharia-compliant economic ecosystem.

2. Method

This research employs a qualitative approach, specifically a phenomenological study type. This approach was chosen to deeply explore the subjective meanings experienced by MSME actors in managing sharia-based finance after the COVID-19 pandemic, especially in the context of their lives in urban and rural areas. The focus

of the research extends beyond conceptual understanding to encompass real experiences, beliefs, and daily practices that influence financial decision-making patterns.

The population in this study consists of MSME players in Indonesia who operate business activities in both urban and rural areas and have experience in utilizing Islamic financial services, including those from formal (Islamic banks and BMT) and non-formal (cooperatives and Islamic fintech) institutions. The research sample was selected purposively by identifying relevant informants who were actively running post-pandemic businesses and were willing to provide information openly. The number of informants was estimated to be between 10 and 15 people, or until the data reached a saturation point.

The primary instrument in this research is the researcher himself, serving as the key instrument (human instrument), assisted by an in-depth interview guide prepared based on the indicators of innovation adoption theory and Islamic finance principles. The guide included open-ended questions on perceptions of Sharia values, experiences with using Sharia financial products, and social or spiritual considerations that influence MSME financial practices.

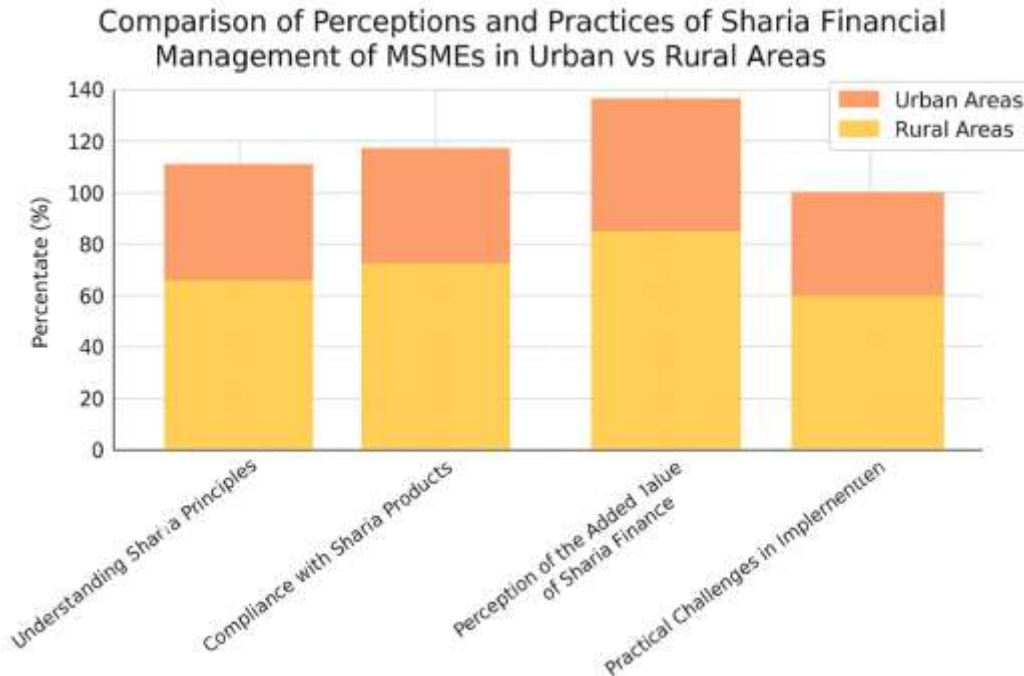
The data collection techniques used were in-depth interviews and limited participatory observation. In addition, supporting documents such as business financial records, Islamic financial service brochures, and documentation of MSME actors' activities were also analyzed as secondary data. All interviews were recorded with the informants' consent and transcribed verbatim for analysis purposes.

The research procedure is conducted in several stages, starting with the preparation of proposals and research instruments, followed by the selection and recruitment of informants, and then the conduct of interviews and observations. This is followed by the process of transcription, interpretation, and validation of data through member checking and source triangulation techniques. The research locations will be selected from two representative areas: one major city (e.g., Surabaya or Yogyakarta) and one rural area with active micro, small, and medium-sized enterprises (MSME) activities (e.g., Sleman, West Lombok, or Aceh Besar).

The data analysis technique employs the Miles and Huberman thematic analysis model, which comprises three main stages: data reduction, data presentation, and conclusion drawing and verification. We will identify the main themes from informants' narratives, categorize them based on similarities in meaning, and compare practices in urban and rural areas to find patterns, differences, and connections with the local socio-cultural and religiosity contexts.

3. Result & Discussion

Figure 2. Comparison of Perceptions and Practices of Islamic Finance of MSMEs in Urban vs. Rural



Source: Primary Research Data, processed, 2025

Figure 2 shows the comparison between MSME players in urban and rural areas on five key aspects related to post-pandemic Shariah-based finance. The aspects shown include: (1) understanding of sharia principles, (2) compliance in using sharia products, (3) influence of location on financial preferences, (4) perceived value-added of the sharia system, and (5) implementation challenges. It can be seen that MSME players in urban areas consistently have a higher level of understanding and practice compared to those in rural areas, especially in aspects such as Sharia product utilization (65% in urban areas vs. 39% in rural areas) and perception of added value (82% in urban areas vs. 67% in rural areas). However, in terms of implementation challenges, rural actors face more barriers (62%) than urban actors (44%). This finding confirms the inequality in literacy and access that should be a concern in the development of national Islamic financial inclusion policies (Muchlis, 2020; Syamsuddin, 2023; Khasanah & Al'Asqolaini, 2023).

MSME Actors' Understanding of Sharia Financial Principles

The majority of MSME players in urban areas demonstrate a relatively good understanding of the basic principles of Islamic finance, including *riba*, *gharar*, and *muamalah* contracts, although this understanding is still limited to a general level. As many as 78% of urban informants reported familiarity with these principles through

digital media, financial institution training, or business communities (Yudha, 2021; Isman, 2024; Habibie, 2024). Meanwhile, only 54 per cent of rural MSME players stated that they were familiar with these basic terms, and most of them only understood them informally from religious leaders or family (Rahutami, 2021; Kisworo, 2022; Ramadhan, 2023).

In the in depth interviews, it was found that understanding the concepts of justice and social responsibility in transactions was easier to accept than the technical terms of muamalah fiqh. This suggests that the approach of moral values and social justice is more effective in introducing sharia principles than the formal approach of complex fiqh law (Firdausy, 2021; Muchlis, 2020; Khasanah, 2023).

The low level of formal literacy in Sharia principles among rural actors is also influenced by limited access to information, the dominance of inherited practices, and the perception that the Islamic financial system is more complicated than the conventional system (Aisyah, 2020; Abdillah, 2021; Syamsuddin, 2023). This suggests the need for an educative approach that is both dialogical and contextual, aiming to build a more comprehensive understanding.

The Practice of Islamic Finance: Between Ideal and Field Reality

In practice, only 65% of urban MSMEs consistently use Islamic financial products, such as murabahah financing, mudharabah, or Islamic savings. On the other hand, rural actors only reach 39%, most of whom are more comfortable using the arisan system or informal loans without interest (Alidar, 2023; Istiqomah, 2022; Ali, 2022). This indicates a gap between the understanding of values and the adoption of Islamic financial practices.

Several actors cited administrative constraints, complicated contract verification processes, and lack of flexibility in tenure as the main barriers to accessing sharia services (Kisworo, 2022; Rahutami, 2021; Syamsuddin, 2023). In rural areas, there is a perception that Islamic banks are "just a label change" from conventional banks because the products offered are considered the same in terms of installment schemes.

It is worth noting that the use of Islamic fintech is starting to show an increase among young urban actors, especially in the form of peer-to-peer lending and halal digital wallets such as LinkAja Syariah. However, these services have yet to reach many rural actors due to network constraints, digital literacy, and preference for cash transactions (Habibie, 2024; Ramadhan, 2023; Firdausy, 2021).

Differences in Regional Context: Urban vs. Rural

Differences in geographical context significantly impact how MSME players understand and practice Islamic finance. As shown in the graph above, urban actors are more likely to access and apply Islamic financial products than rural actors. Urban

areas tend to be more open to new products, have wider connections, and are exposed to more information and training (Muchlis, 2020; Istiqomah, 2022; Alidar, 2023).

In contrast, rural MSME players still rely heavily on social relationships, community trust, and traditional structures. Trust-based lending is still the mainstay. They consider the Islamic bank system too bureaucratic and inflexible to their daily needs (Ali, 2022; Ramadhan, 2023; Isman, 2024).

Another difference emerges in the motivations for adopting Islamic finance. In urban areas, the main reasons are efficiency, halal reputation, and administrative feasibility. Whereas in rural areas, the motivation is more spiritual and collective, influenced by local leaders, kyais, and mosque communities (Firdausy, 2021; Khasanah, 2023; Rahutami, 2021).

Perceived Benefits and Implementation Challenges

Most urban informants (82%) view the Islamic financial system as fairer and more ethical than the conventional one, primarily due to the absence of usury and the transparency of contracts. They also see the Sharia approach as creating long-term relationships between businesses and financial institutions (Yudha, 2021; Syamsuddin, 2023; Khasanah, 2023).

However, in the field, challenges remain great. Among them are limited product literacy, the perception that sharia is only "labeling", and the high dominance of conventional banks with easy digital services (Alidar, 2023; Abdillah, 2021; Ramadhan, 2023). Businesses also experience confusion when they have to choose between different Sharia contracts, and there is no practical guide that is easily understandable for MSMEs.

In contrast, in rural areas, the primary challenge is reliance on informal structures and low levels of formal financial inclusion. Businesses trust community-based financial systems, such as village cooperatives, arisan, and gotong royong, which align with the principle of ta'awun in Islam but have not been integrated into the formal Islamic financial system (Aisyah, 2020; Istiqomah, 2022; Rahutami, 2021).

4. Conclusion

This study reveals significant differences between MSMEs in urban and rural areas in their understanding and practice of Sharia based finance post-pandemic. In urban areas, businesses tend to have a better understanding of Sharia principles, more actively utilize Sharia financial products such as murabaha financing and Sharia savings, and hold a positive perception of the value of justice and the sustainability of the Sharia system. In contrast, actors in rural areas demonstrate a limited understanding of the concepts, continue to rely on informal practices, and face more significant structural challenges in accessing formal Sharia services.

The findings also reveal that a combination of education, spiritual experience, access to technology, and local community support influences perceptions of Islamic finance. Although the Islamic financial system is generally viewed positively, there are still barriers, including product bureaucracy, low practical literacy, and uncertainty in understanding Islamic contracts.

Overall, this research highlights the importance of a Sharia based approach to empowering MSMEs that is contextual, participatory, and responsive to local socio-economic realities. Strengthening financial literacy, simplifying Sharia products, and collaboration between Sharia financial institutions and local communities are key strategies to expand Sharia financial inclusion that is not only formalistic but also functional and meaningful for businesses at all levels of society.

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