

## Strengthening the Legal Framework of Sharia Rural Bank (BPRS) to Support the MSME Resilience in Indonesia

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### ABSTRACT

**Introduction:** *Micro, Small, and Medium Enterprises (MSMEs) play a strategic role in Indonesia's economy; however, limited access to financing and regulatory constraints hinder their optimal development. The Sharia Rural Bank (BPRS) has significant potential to support MSME resilience, yet its effectiveness remains constrained by weaknesses in the legal system. This study aims to analyze and formulate strategies to strengthen the legal system of BPRSs to enhance MSME resilience in Indonesia.*

**Methods:** *This research employs a normative legal method and a qualitative approach, drawing on statutory and conceptual sources. Primary legal materials include laws and regulations governing Islamic banking, while secondary materials include academic literature and legal doctrines. Data were collected through library research and analyzed using Lawrence M. Friedman's legal system theory, which encompasses legal structure, legal substance, and legal culture.*

**Results:** *The findings indicate that the increasing trend of non-performing financing (NPF), institutional limitations, regulatory inconsistencies, and low levels of Islamic financial literacy weaken the effectiveness of BPRS in supporting MSMEs. It can be concluded that strengthening the legal structure, harmonizing legal substance, and improving legal culture are essential to optimize the role of BPRS in enhancing MSME resilience.*

**Conclusion and suggestion:** *This study contributes by offering a holistic legal framework grounded in Friedman's theory to support policy reform, institutional strengthening, and the development of Islamic financial literacy, thereby advancing MSME sustainability.*

**Keywords:** *Legal System; Sharia Rural Bank; MSME Resilience; Islamic Financing; Islamic Banking Regulation*

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## INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are a fundamental pillar of Indonesia's national economy, significantly contributing to employment absorption, income distribution, and economic resilience, especially during crises. MSMEs account for over 64 million units and contribute around 61% to Indonesia's GDP while absorbing approximately 97% of the workforce, highlighting their critical role in economic stability and growth (Abduh et al., 2024). During the COVID-19 pandemic, MSMEs demonstrated resilience through digital transformation, product diversification, business innovation, and collaboration, supported by government policies facilitating access to financing, training, and digital infrastructure (Andriansyah et al., 2025). Legal and financial frameworks, such as credit restructuring and the Omnibus Law on Job Creation, have been instrumental in supporting MSMEs by easing access to financing and reducing regulatory burdens, thereby promoting sustainability and economic recovery (Badriyah et al., 2024; D. P. Hadi et al., 2023). Additionally, Islamic finance practices have shown promise in enhancing MSME growth by aligning with ethical business principles and fostering innovation (Hartanto et al., 2023). Challenges remain in market diversification, digital literacy improvement, and the creation of supportive ecosystems that integrate government, private-sector, and community efforts to sustain MSME development in Indonesia (Dekeng Setyo Budiarto et al., 2023; Pieter & Utomo, 2023).

A major challenge faced by MSMEs is limited access to financing that aligns with their specific business characteristics, hindering their growth and economic contribution. Factors such as firm attributes, sources of finance, and the business life cycle positively influence MSMEs' access to finance, whereas financial constraints negatively affect their development (Rajamani et al., 2022). Financial literacy, perceived access to finance, and the use of information and communication technology (ICT) significantly reduce credit constraints for MSMEs, highlighting the importance of knowledge and digital tools in improving access to financing (Charfeddine et al., 2024). Traditional lending institutions often deny MSMEs loans due to a lack of collateral, credit history, or track record; thus, interventions such as microcredit, digital financial services, and regulatory reforms are employed to enhance access in low- and middle-income countries (Dela Cruz et al., 2023). Fintech innovations have improved MSME credit accessibility but may also increase competition and risk to banking stability; stable banks tend to restrict lending to MSMEs, while fintech expands credit availability, albeit with potential risks (Ismanto et al., 2023). Digital financial inclusion promotes technological innovation among MSMEs by alleviating financing constraints, though support for high-tech enterprises remains insufficient and regional disparities exist (Sun & Zhang, 2024). Overall, improving tailored financial products, enhancing financial literacy, leveraging fintech solutions, and supportive policies are key to overcoming MSMEs' financing barriers.

The Sharia Rural Bank (BPRS) is a financial institution that plays a strategic role in advancing the microfinance sector through Sharia-based financing that is more flexible and equitable. BPRS plays a strategic role in providing sharia-compliant financing to the microsector, particularly targeting MSMEs to improve economic welfare through flexible, equitable principles. Studies show BPRS supports MSME development by offering financial assistance, monitoring customers, and acting as business consultants, although customer growth may fluctuate over time (Farizqi, 2021). Islamic microfinance institutions, such as BPRS, contribute to financial inclusion by integrating sharia principles into microfinance models that empower low-income communities and promote sustainable development (Hassan et al., 2021). Additionally, related Islamic financial institutions, such as Baitul Maal wat Tamwiil (BMT), complement BPRS by providing smaller-scale financing options suitable

for home-based micro businesses and by addressing capital constraints faced by micro entrepreneurs (Nurfalah & Taufiq, 2023).

Despite their significant potential, the role of BPRS in supporting MSME resilience has yet to be fully realized. This is due to various challenges, including institutional limitations, weak regulatory enforcement, and limited public awareness of the Islamic financial system. The limitations of BPRS in supporting MSME resilience stem from several key factors that remain unknown or underexplored. These include structural institutional constraints within BPRS, weak enforcement and implementation of relevant regulations, and a generally low level of legal culture or awareness among the community regarding Islamic financial systems. Additionally, challenges such as limited access to finance and regulatory barriers have been identified as major constraints on MSME development more broadly, likely affecting BPRS effectiveness as well (Endris & Kassegn, 2022). The interplay between these institutional weaknesses and socio-cultural factors, such as community trust and understanding of sharia-compliant finance, remains insufficiently studied. Addressing these gaps requires comprehensive policy development that strengthens institutional frameworks, improves regulatory implementation, and enhances public legal literacy about Islamic finance to optimize BPRS's support for MSME resilience (Endris & Kassegn, 2022).

In addition, the persistently high level of non-performing financing (NPF), limited capital, and low levels of Islamic financial literacy pose serious challenges for BPRS. These conditions indicate that the issues faced are not merely technical in nature but are also closely linked to the legal system that regulates and supports BPRS operations. The challenges faced by BPRS include high levels of NPF, limited capital, and low sharia financial literacy, which are compounded by legal and systemic issues. Research shows that ineffective implementation of policies to reduce NPF is linked to inconsistent legal norms, negative legal culture, and misunderstandings about debt restructuring, suggesting that legal frameworks and cultural factors significantly impact NPF resolution in sharia finance companies (Sofiani & Suhendar, 2024). Financial literacy in the Islamic finance sector remains relatively low but is crucial for improving financial behavior and management among MSMEs, with positive attitudes toward sharia finance enhancing intentions to adopt compliant financial practices (Muhammad Sulhan et al., 2025). Capital constraints and operational inefficiencies also affect financial performance in sharia banking units, where effective risk management and operational efficiency are key to improving outcomes (Halim, 2025). Furthermore, the development of sharia accounting models integrated with financial innovation could support better compliance and operational efficiency, but requires stronger human resource capacity and government support (Menne et al., 2024).

Lawrence M. Friedman's theory of legal systems identifies three main elements that determine a legal system effectiveness: legal structure, legal substance, and legal culture. Legal structure refers to the institutions and mechanisms that implement and enforce laws, such as courts and law enforcement agencies. Legal substance refers to the content of laws, including their clarity, fairness, and alignment with societal values. Legal culture encompasses the attitudes, awareness, and behaviors of both legal actors and the public toward the law. Research applying Friedman's theory in various Indonesian contexts shows that weaknesses in any of these elements, such as flawed legal substance, institutional inefficiencies in legal structure, or low public legal awareness, can undermine law enforcement effectiveness (Flora et al., 2023; Rosyadi et al., 2025; Yahya Boudelo et al., 2025). For example, ineffective criminalization due to derivative regulations (substance), weak institutional roles (structure), and low public awareness (culture) have been linked to poor enforcement outcomes (Rosyadi

et al., 2025). Strengthening all three elements holistically is essential to improving the effectiveness of the legal system and public trust (Irwan Triadi et al., 2024).

Therefore, strengthening the legal system of BPRS is a strategic step to enhance its role in supporting MSME resilience in Indonesia. Legal empowerment of MSMEs requires comprehensive policies that go beyond deregulation, including state-led legal facilitation, digital legal literacy, and institutional redesign to integrate MSMEs into broader legal frameworks, which can also apply to BPRS as financial institutions supporting MSMEs (Hetharie et al., 2025). Regulatory reforms, such as simplifying licensing, tax systems, and capital access through approaches like the Omnibus Law, can reduce administrative burdens and improve the business environment for MSMEs, thereby indirectly strengthening BPRS's capacity to serve these enterprises (Riwanto et al., 2023). The Indonesian Job Creation Law has introduced programs aimed at easing, protecting, and empowering MSMEs during crises like the COVID-19 pandemic, demonstrating that legal breakthroughs can support MSME resilience when effectively implemented (Koeswahyono et al., 2022). However, challenges remain in ensuring balanced legal frameworks that protect MSMEs while enforcing accountability in partnerships with larger businesses, which is crucial for sustainable growth and trust in institutions like BPRS (Hadyan Yunhas Purba et al., 2025).

Based on the above discussion, this study focuses on strengthening the legal structure, substance, and culture of BPRS to support the resilience of MSMEs in Indonesia. In line with this research question, the objective of this study is to comprehensively analyze and formulate strategies for strengthening the BPRS legal system, encompassing legal structure, legal substance, and legal culture, to enhance the role and effectiveness of BPRS in supporting the resilience of MSMEs in Indonesia.

## **LITERATURE REVIEW**

### **Concept of BPRS**

BPRS is a Sharia-compliant financial institution in Indonesia that operates in accordance with Islamic principles and does not provide payment traffic services. BPRS focuses on financing micro and small sectors with an emphasis on empowering the community's economy, using Sharia contracts such as murabahah (cost-plus sale), mudharabah (profit-sharing), and musyarakah (partnership). These banks play a significant role in supporting MSMEs, contributing to local economic welfare by providing tailored financing and business development assistance (Farizqi, 2021). BPRS performance is influenced by factors such as employee competence, economic freedoms, including business and investment freedom, and operational efficiency, as measured by financial indicators such as revenue sharing and return on assets (Murah Syahrial et al., 2025). However, BPRS face regulatory limitations, such as the prohibition on offering direct debit services to protect their community bank function, which affects their ability to serve micro and small enterprises optimally. Collaboration with Islamic fintech platforms is suggested as a strategy for sustainability in the digital era (Kadir & Musataklima, 2025). Overall, BPRS serve as important community banks that align with Islamic values while addressing the financial needs of economically weaker groups through specialized Sharia-based financing products (Asmawi et al., 2024).

BPRS plays a crucial role in reaching unbanked populations, especially MSMEs in Indonesia, by providing Shariah-compliant financial services based on partnership (syirkah) and fairness ('adl) principles. These principles underpin Islamic finance contracts like

mudharabah and musyarakah, which emphasize profit- and risk-sharing rather than interest-based lending, making BPRS a suitable alternative for MSMEs often excluded from conventional banking due to rigid credit requirements (Noviarita et al., 2025). Islamic finance practices, including those offered by BPRS, have been shown to positively impact MSME growth by aligning with Islamic business ethics and promoting equitable economic participation (Hartanto et al., 2023). The approach of BPRS aligns with broader goals of financial inclusion and sustainable development underpinned by Maqasid al-Shariah (objectives of Islamic law), which emphasize justice and welfare for underserved communities (Harahap et al., 2023; Noviarita et al., 2025). While challenges remain, such as limited digital adoption and regulatory adaptation, recent fatwas support the integration of digital financial services to enhance accessibility and efficiency for MSMEs (Noviarita et al., 2025).

### **MSMEs and Economic Resilience**

MSMEs significantly contribute to national economies through the number of business units and employment absorption, demonstrating resilience during crises such as economic downturns and the COVID-19 pandemic. However, key challenges hindering MSME development include limited access to finance, low financial literacy, and insufficient business mentoring or support services (Endris & Kassegn, 2022; Prakash et al., 2021; Rajamani et al., 2022). Financial constraints are a major barrier globally, affecting MSMEs' growth and sustainability, with firm attributes and sources of finance playing critical roles in access to funding (Rajamani et al., 2022). Regulatory complexities, including difficulties obtaining licenses and cumbersome tax systems, also impede MSME empowerment; reforms such as Indonesia's Omnibus Law aim to simplify these processes by reducing administrative burdens (Riwanto et al., 2023). The COVID-19 pandemic accelerated the need for digital transformation among MSMEs, highlighting the importance of digital readiness and knowledge transfer from universities to overcome operational challenges (Anatan & Nur, 2023; Bai et al., 2021). Sustainable development efforts for MSMEs increasingly focus on integrating green economy principles and digitalization to enhance performance while addressing environmental concerns (Pangarso et al., 2022).

The BPRS plays a crucial role in supporting inclusive and adaptive financial systems by providing sharia-based financing that is accessible and close to the community, particularly targeting MSMEs. BPRS financing aims to improve economic welfare by sustaining local economic sectors, increasing MSME financing allocation, monitoring customers, and offering business development consultation (Farizqi, 2021). The competence and performance of BPRS employees significantly influence customer satisfaction in financing services, which is essential for maintaining trust and expanding financial inclusion. Additionally, fintech platforms like Ammana.id collaborate with BPRS and other microfinance institutions to facilitate sharia-compliant peer-to-peer lending, enhancing access to capital for MSMEs through innovative contracts such as *wakalah bil ujah* and *musharaka* (Khasanudin & Santoso, 2022). BPRS also fits within the legal framework for regional banking enterprises aimed at improving public economic status and competitiveness while adhering to sharia principles (Arrsa et al., 2021).

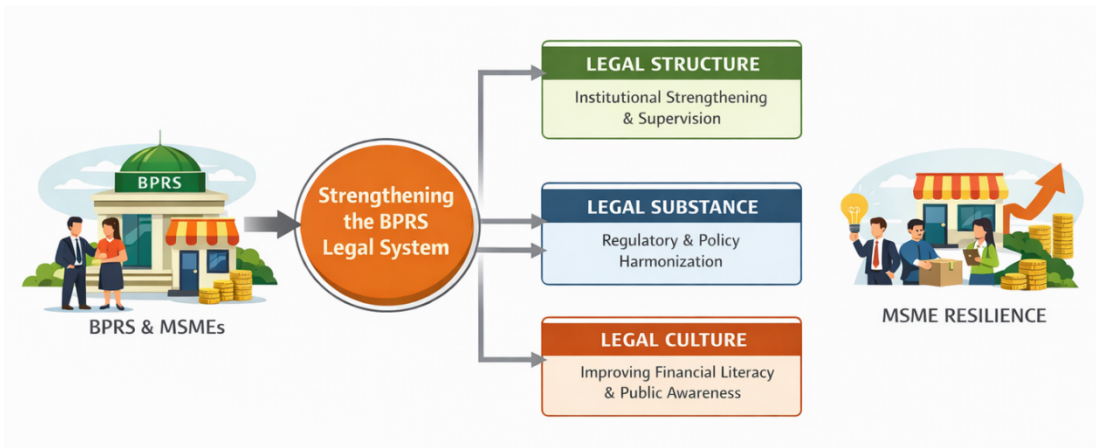
### **Theory of Legal System**

Lawrence M. Friedman's legal system theory identifies three core elements, legal structure, legal substance, and legal culture, that must harmonize for an effective legal system supporting economic development. The legal structure includes institutions and enforcement bodies such as regulators and financial institutions, which provide the framework for economic activities. The legal substance comprises laws, regulations, and policies that govern economic

transactions, ensuring clarity and predictability. The legal culture reflects societal values, attitudes, and trust toward the law and institutions, influencing compliance and participation in economic systems. Research applying Friedman’s theory to Indonesia’s Islamic socio-economic models shows that weaknesses in the legal structure (e.g., regulatory gaps) and low legal awareness hinder optimal economic outcomes, underscoring the need for greater professionalism and community engagement to strengthen economic instruments such as waqf (M. Hadi et al., 2025). Studies on emerging markets confirm that strengthening the legal structure positively impacts financial development by creating a conducive environment for investment and market growth (Anser et al., 2024). Thus, Friedman’s framework supports economic development by emphasizing the interplay of institutional capacity, clear regulations, and supportive cultural attitudes toward law.

### Strengthening the Legal Framework of Rural Banks to Support MSMEs

Strengthening the legal system of BPRS is a strategic effort to enhance its role in supporting MSMEs, focusing on institutional capacity, regulatory harmonization, and cultural aspects such as financial literacy and public trust. Research highlights the need for improved institutional capacity and stronger oversight by authorities to ensure effective governance of BPRS. Harmonizing regulations and policies that support sustainable MSME financing within the Islamic economic framework is crucial to enhancing legal substance. Increasing Islamic financial literacy among MSME actors significantly improves their financial management and Sharia-compliant practices, thereby building consumer trust and supporting sustainable business growth. Studies also emphasize the importance of coordinated government policies, institutional support, and multi-stakeholder collaboration to foster a robust ecosystem for Sharia-compliant MSMEs, including greater access to Islamic financial products and digital innovations such as FinTech (Hidayat, 2025; Mujiatun et al., 2023).



**Figure 1. Strengthening the BPRS System to Support the Resilience of MSMEs**

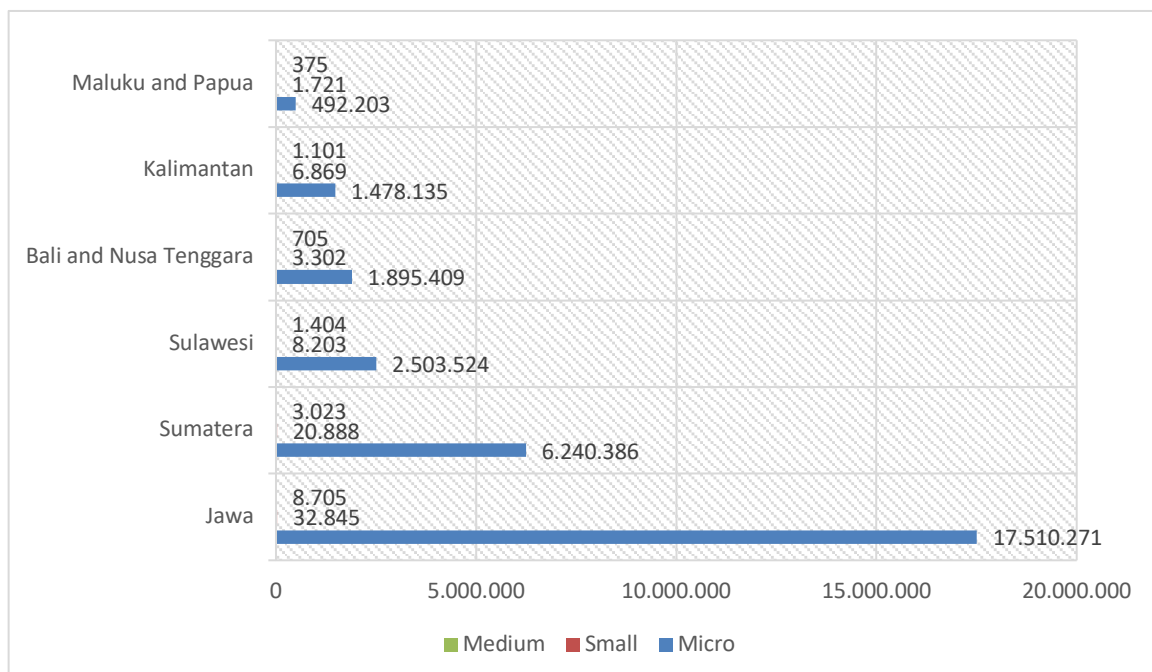
The conceptual framework illustrates that strengthening the legal system of BPRS is a central strategy for supporting MSME resilience in Indonesia, grounded in three interconnected elements derived from Lawrence M. Friedman’s theory. The legal structure emphasizes institutional strengthening and effective supervision of BPRS; the legal substance focuses on harmonizing regulations and policies to facilitate MSME financing; and the legal culture highlights the importance of improving financial literacy and public awareness of Islamic banking. These three elements operate synergistically to enhance the effectiveness of

BPRS in providing sustainable financing, thereby strengthening the resilience and growth of MSMEs in Indonesia.

## METHOD

This study is a normative legal study using a qualitative approach to analyze the strengthening of the legal system of BPRS to support the resilience of MSMEs in Indonesia. The approaches used include the statutory and conceptual approaches. The statutory approach involves examining various regulations related to Islamic banking, particularly Law No. 21 of 2008 on Islamic Banking and regulations issued by the Financial Services Authority (OJK). Meanwhile, the conceptual approach is used to analyze relevant legal concepts, including legal system theory. The legal materials used consist of primary sources, such as legislation, as well as secondary sources, including literature, academic journals, and legal doctrines relevant to the research topic. The collection of legal materials is conducted through library research. The analysis of legal materials was conducted qualitatively using Lawrence M. Friedman’s legal system theory framework, which encompasses three main elements: legal structure, legal substance, and legal culture. This analysis aims to identify weaknesses in the BPRS legal system and formulate a comprehensive strengthening strategy to support the resilience of MSMEs in Indonesia.

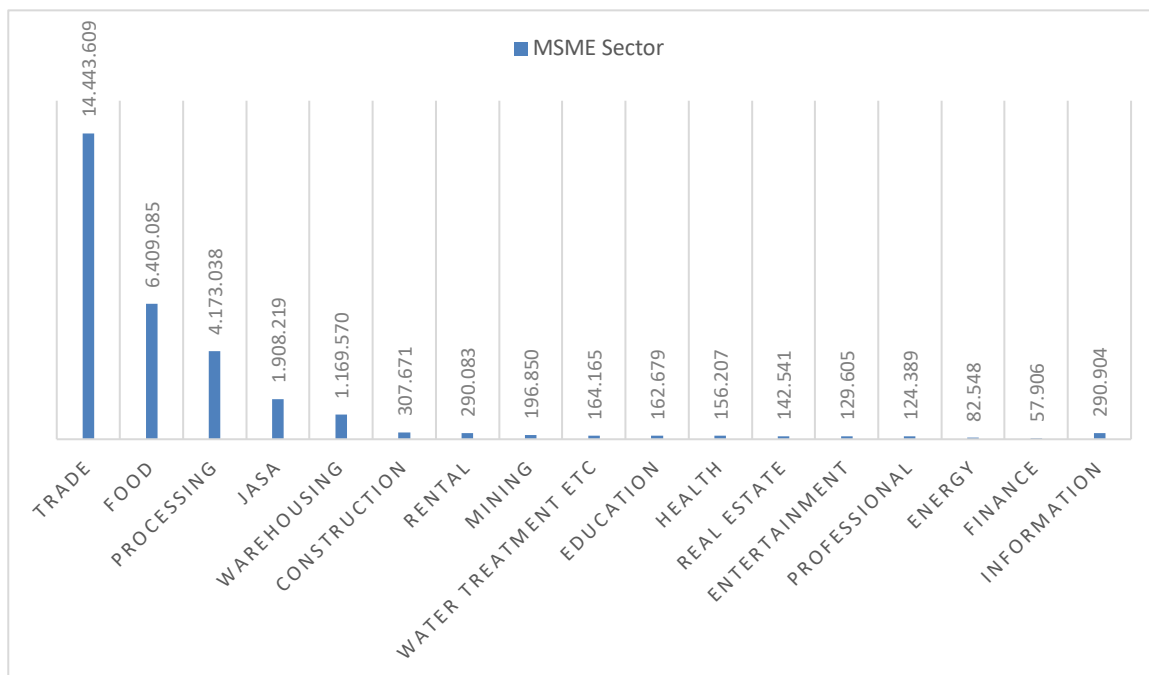
## RESULT AND ANALYSIS



**Figure 2. MSME Statistics by Province**

Figure 2 shows the distribution of MSMEs in Indonesia based on the Integrated Data Information System (SIDT) of the Indonesian Ministry of MSMEs as of December 31, 2025,

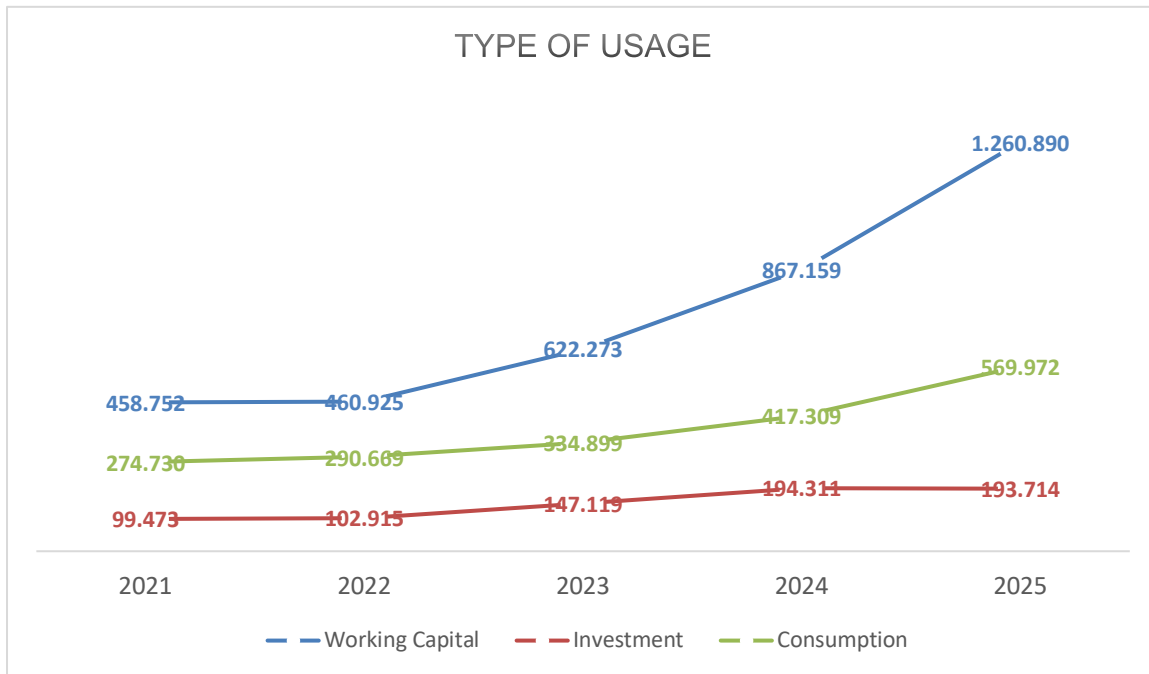
with a total of 30,209,069 business units spread across 38 provinces. The majority of MSMEs are microenterprises, totaling 30,119,928 units (99.70%), followed by small enterprises at 73,828 units (0.24%) and medium-sized enterprises at 15,313 units (0.05%), indicating that Indonesia’s MSME structure is heavily reliant on the microscale. Geographically, Java has the largest number of SMEs at 17,551,821 units, followed by Sumatra with 6,264,297 units, Sulawesi with 2,513,131 units, Bali and Nusa Tenggara with 1,899,416 units, Kalimantan with 1,486,105 units, and Maluku and Papua with 494,299 units. These data indicate a concentration of economic activity on Java and regional disparities in SME distribution, underscoring the importance of financial institutions such as BPRS in expanding access to financing and strengthening SME resilience across Indonesia.



**Figure 3. Number of MSMEs by Economic Sector**

Figure 3 shows that, based on data from the Ministry of MSMEs’ Integrated Data Information System as of December 31, 2025, the distribution of MSMEs in Indonesia indicates that the Wholesale and Retail Trade and Motor Vehicle and Motorcycle Repair sectors dominate with 14,443,609 business units, followed by the Accommodation and Food Service sector with 6,409,085 units, and the Manufacturing sector with 4,173,038 units. Other sectors with significant contributions include Other Service Activities (1,908,219 units) and Transportation and Warehousing (1,169,570 units). Meanwhile, sectors with a moderate number of units include Rental and Leasing Activities (290,083 units), Information and Communication (290,904 units), and Mining and Quarrying (196,850 units). Sectors with relatively smaller numbers include Water Treatment and Waste Management (164,165 units), Education (162,679 units), Health and Social Activities (156,207 units), Real Estate (142,541 units), Arts, Entertainment, and Recreation (129,605 units), Professional, Scientific, and Technical Activities (124,389 units), Electricity, Gas, Steam/Hot Water, and Air Conditioning Supply (82,548 units), and Financial and Insurance Activities (57,906 units). These data

indicate that MSMEs in Indonesia are heavily concentrated in the trade and consumption sectors, underscoring the importance of financing policies and strengthening the legal system, including the role of BPRS, to promote business sector diversification and enhance national economic resilience.



**Figure 4. Non-Performing Financing of BPRS**

Based on Sharia Banking Statistics data from the Financial Services Authority, Figure 4 shows an upward trend in Non-Performing Financing (NPF) at Sharia Rural Banks (BPRS) by use type from 2021 to 2025. Working capital financing recorded the largest increase, from Rp458,752 million in 2021 to Rp1,260,890 million in 2025, indicating high financing risks in the productive sector. Meanwhile, consumption financing also increased consistently from Rp274,730 million to Rp569,972 million, reflecting a significant share of consumer financing in the NPF. As for investment financing, it experienced a more moderate increase, from Rp99,473 million in 2021 to approximately Rp193,714 million in 2025, and even stagnated in the last year. Overall, this trend indicates an increase in financing risks at BPRS, particularly in the working capital and consumer sectors, necessitating the strengthening of legal frameworks, risk management, and supervision to maintain the stability of Islamic banking and support the sustainability of SME financing in Indonesia.

## DISCUSSION

Research findings indicate an upward trend in NPF at BPRS from 2021 to 2025, particularly in working capital and consumer financing, reflecting high risks associated with supporting MSMEs that dominate the trade sector (14.4 million units). The concentration of MSMEs in Java (17.5 million units) underscores regional disparities and the need to strengthen the BPRS legal framework for Islamic financial inclusion. This analysis employs the Friedman framework to identify weaknesses and outline improvement strategies.

## Legal Structure Analysis

The legal framework for BPRS is weak because OJK supervision has not been optimal, as evidenced by the rise in non-performing loans (NPLs) on working capital to Rp1.26 trillion by 2025. Several studies indicate that its effectiveness remains weak due to suboptimal implementation of supervision. Structurally, the OJK's integrated supervision model is considered "sound" and risk-based; however, in practice, it emphasizes technical compliance over substantive Sharia objectives and has not fully adapted to the specificities of Sharia contracts and governance. On the other hand, the division of roles between the OJK, the bank's Sharia Supervisory Board (DPS), and the Sharia Council of the Indonesian Ulema Council (DSN-MUI) still leads to overlapping responsibilities and operates in silos, resulting in inefficient supervision, creating legal risk gaps, and rendering the performance of supervision regarding compliance with Sharia principles "suboptimal" (Lalu Hayyanul Haq, Muhaimin, 2023; Yusmad et al., 2024). The study also highlights the continued weakness of the Sharia audit instruments standardized by the OJK, as well as the lack of performance indicators that explicitly reflect the values of maqasid Sharia in bank health assessments (Yusmad et al., 2024).

BPRS institutions need to enhance their human resource capacity and collaborate with Sharia fintech firms to mitigate risks, as recommended within a real-time, data-driven supervisory framework. This has proven key to the performance and resilience of Shariah financial institutions in the digital age. Research on Sharia-based MSMEs indicates that strong human resource capacity, when combined with the utilization of Sharia fintech, significantly improves financial performance and business sustainability, thereby highlighting the importance of digital and managerial competencies, as well as an understanding of Islamic commercial jurisprudence (*fiqh muamalah*), in managing risks and optimizing data utilization (Menne et al., 2022). In the broader context of Islamic banking, performance is heavily influenced by the quality of internal resources (operational, spiritual, infrastructure, and organizational capital), which are then leveraged through innovation and collaboration strategies, including collaboration with external partners, to drive improvements in business performance (Thaib et al., 2025). In terms of supervision, the OJK's integrated supervision framework for Islamic banking is considered to be risk-based but remains somewhat technical and does not yet fully incorporate the *maqāṣid al-syarī'ah* or strong institutional synergy; therefore, it is recommended that collaboration among authorities, Sharia supervisory boards, and industry players be strengthened (Hasan et al., 2025).

This strengthening aligns with Law No. 21/2008 on Sharia Banking, which emphasizes the role of BPRS as community banks for MSMEs (99.7% of 30.2 million units). From a regulatory perspective, this law provides a clear legal basis for the development of Islamic financial institutions, regulates the types of business activities that may be conducted, and reaffirms the orientation of Islamic banking toward the public good, justice, and the avoidance of usury, uncertainty, and gambling (Lubis & Hulwanullah, 2024). In this context, BPRS are designed to serve as institutions that are closely connected to low-income communities and micro and small business owners; therefore, strengthening the institutional framework, regulations, and operational capacity of BPRS, for example, through improved governance, Sharia compliance, and innovation in microfinance products, is, by design, intended to expand access to inclusive Sharia-compliant financing for MSMEs at the grassroots level (Harrieti et al., 2024).

## Legal Substance Analysis

The legal framework remains inconsistent, with regulations such as the Omnibus Law on Job Creation facilitating access to financing for MSMEs but lacking specificity regarding Sharia contracts. The provisions on MSME financing in the Omnibus Law on Job Creation aim to streamline the business ecosystem and improve access to financing, but do not yet provide detailed regulations for specific Sharia contracts, such as murabahah and mudharabah. This law is a “framework law” that is intentionally kept general, with technical details to be filled in through implementing regulations and other sectoral regulations, such as OJK regulations and DSN-MUI fatwas in the Islamic finance sector (Hidayah et al., 2023; Mahy, 2022). On the other hand, research on the practices of BMTs and Islamic banks indicates that, particularly at the level of technical contracts (murabahah bi al-wakalah, margin setting, administrative fees, and the format of mudharabah savings accounts), there are often inconsistencies with Sharia principles, the presence of elements of gharar or similarities to interest, as well (Asyiqin & Alfurqon, 2024; Noviarita et al., 2025; Rizal et al., 2025). Disputes over Islamic banking in the Religious Courts also demonstrate that overly general regulations lead to varying interpretations by judges and legal uncertainty, prompting calls for Islamic financing contracts to be regulated in greater detail and with greater certainty (Hidayah et al., 2023).

The increase in the NPF for consumer financing to Rp570 billion reflects the continued weakness in the effectiveness of policy relaxation and the handling of non-performing loans at financial institutions, including sharia financing companies. Empirical legal research in Indonesia shows that the post-COVID-19 relaxation NPF remains high due to inconsistent restructuring norms, a negative legal culture, and misinterpretations of the term “restructuring”, which debtors often perceive as debt forgiveness, thereby causing resistance and hindering fair and effective resolutions (Sofiani & Suhendar, 2024). At the same time, the growth of fintech and the digitalization of financial services are changing consumer behavior and household financial management patterns, expanding access to financing while also increasing the risk of overindebtedness if not balanced by adequate digital financial literacy (Koskelainen et al., 2023; Uthaileang & Kiattisin, 2023). Cross-country studies show that integrating fintech, regulatory technology (RegTech), and improved financial literacy can enhance the quality of credit assessments, strengthen compliance, and reduce non-performing loan ratios in the long term (Ali Mustafa, 2024). In the Indonesian context, the fintech ecosystem, including sharia fintech, still faces challenges related to financial literacy, technological readiness, and the effectiveness of oversight; this underscores the need for clearer and more harmonized regulations, including adjustments and refinements to OJK regulations on the restructuring of non-performing financing to align with digital practices, consumer protection, and systematic digital financial literacy programs (Suaidi et al., 2025).

The claim that harmonizing policies or regulations will increase financing for MSMEs in non-trade sectors, such as manufacturing, still leaves several unknowns. In general, it is clear that MSMEs face serious financing barriers due to weak credit histories, collateral, and institutional factors, and various interventions, including policies, regulations, institutional systems, lending instruments, and demand-side programs, are indeed designed to improve such access (Dela Cruz et al., 2023). However, the available evidence rarely breaks down the impact of interventions by sector in detail, so it remains unclear whether harmonization actually shifts credit allocation from the trade or services sector to MSME manufacturing. A global evidence map shows that research focuses primarily on credit or loan schemes and financial products for microenterprises, with far fewer studies evaluating strategic, legal, and regulatory interventions, particularly those targeting small and medium-sized MSMEs, and monitoring their impact on the policy environment and the sectoral composition of financing (Dela Cruz et

al., 2023). On the other hand, studies on regional integration or policy have indeed found that integration can reduce resource mismatches among firms by easing financing constraints and lowering operating costs; however, the effects vary across firm types and industries, and these studies do not explicitly address how credit allocation shifts across sectors or specifically toward manufacturing SMEs (Wu et al., 2025). Thus, a clear causal relationship remains unknown, as does the extent of the potential increase in financing (for example, based on 4.1 million manufacturing MSMEs), and what kind of policy design would be most effective and safe for promoting the allocation of financing to the non-trade sector without creating distortions or allowing large players to capture the policy.

### **Legal Culture Analysis**

Low legal culture among MSMEs contributes to limited awareness of Sharia financing, worsening non-performing financing (NPF) issues, and increasing reliance on consumer sector funding. Improving Islamic financial literacy, especially in eastern regions like Sulawesi, home to 2.5 million MSME units, is crucial and can be achieved through programs by the Financial Services Authority (OJK) and partnerships with universities. Research shows that while basic understanding of Islamic finance exists among MSMEs, overall financial literacy remains low, and higher literacy correlates with better financial management and greater intention to adopt Sharia-compliant practices (Muhammad Sulhan et al., 2025). Positive attitudes toward Islamic finance enhance MSME participation in Sharia financing, aligning with Maqasid al-Shariah goals for welfare improvement (Muhammad Sulhan et al., 2025; Ramashar & Muhammad, 2024). Studies also highlight that financial literacy has the strongest direct impact on MSME sustainability, mediating the effectiveness of Sharia fintech and governance, though challenges like uneven literacy levels and limited digital infrastructure persist (Muhammad Nanang Choiruddin et al., 2025; Rokhlinasari et al., 2025). Strengthening government support, institutional roles, and targeted literacy campaigns are recommended to boost Sharia financing uptake and MSME resilience in Indonesia's eastern regions (Menne et al., 2023; Putri Balqis Vilza et al., 2025).

### **CONCLUSION**

This study indicates that strengthening BPRS's legal framework is a crucial step toward enhancing its role in supporting MSME resilience in Indonesia. With the majority of MSMEs classified as microenterprises (99.7%), a high concentration on the island of Java, and a dominance of the trade sector, BPRS has significant potential to serve as an effective instrument for Sharia financial inclusion. However, the rising trend of NPF during the 2021–2025 period, particularly in working capital and consumer financing, indicates weaknesses in the structural, substantive, and legal-cultural aspects governing BPRS operations. Structurally, supervision and institutional capacity of BPRS need to be enhanced. The role of supervisory authorities, such as the OJK, must be strengthened through real-time, data-driven monitoring, human resource development, and collaboration with Islamic fintech providers to mitigate financing risks. Substantively, current regulations are not yet fully harmonized and do not adequately accommodate the characteristics of Islamic contracts or the integration of financial technology. Therefore, revisions to the OJK Regulation (POJK) and its implementing regulations are necessary to clarify and operationalize norms regarding restructuring, consumer protection, and fintech-BPRS collaboration. From a legal culture perspective, the level of Islamic financial literacy and legal awareness among MSMEs remains low, thereby increasing the risk of problematic financing. Targeted education programs and literacy

campaigns, particularly in non-Java regions, are urgently needed. Policy recommendations arising from these findings include: (1) strengthening the OJK's supervisory capabilities and establishing responsive NPF monitoring mechanisms; (2) harmonizing and amending Islamic banking regulations to accommodate Sharia contracts, clear restructuring policies, and integration of cooperation standards with fintech; (3) enhancing the internal capacity of BPRS through risk management training, service digitization, and strategic collaboration with sharia fintech platforms; and (4) a nationwide sharia financial literacy program involving the OJK, relevant ministries, universities, and the BPRS association to improve MSMEs' understanding of and trust in sharia products.

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