

## **Analysis of Banking Strategy in Sharia MSME Financing to Improve Bank Health (Case Study of Bank BJB Medan)**

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### **Abstract**

*This study analyzes the financing strategy of sharia Micro, Small, and Medium Enterprises (MSMEs) implemented by Bank BJB Medan in order to improve the health of the bank. MSMEs have a crucial role in the Indonesian economy, but access to sharia financing is still limited. Bank BJB Medan uses various sharia-based financing schemes, such as musyarakah and mudharabah, to support the growth of MSMEs without an interest system. The research method used is a qualitative approach with interviews, observation, and data analysis techniques. The results of the study show that the sharia MSME financing strategy implemented by Bank BJB Medan is able to reduce financial inclusion, with a Non-Performing Financing (NPF) ratio above 5%. Challenges such as the low understanding of MSME actors towards sharia financing, competition with conventional banks, and the need for investment in digital infrastructure are still obstacles that need to be overcome. Therefore, further innovation is needed in product development, financial education, and digital system optimization so that sharia financing is more inclusive and sustainable .*

**Keywords:** *Sharia MSME, Bank BJB Medan, Sharia Financing, Bank Health .*

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### **INTRODUCTION**

The development of the business world cannot be separated from the role of micro, small and medium enterprises (MSMEs). Micro, small and medium enterprises have experienced quite rapid growth in recent times. MSMEs are a business sector that plays an important role in Indonesia's economic growth, in addition to having a role in providing employment, MSMEs are also a link in the distribution of development results (Saragih et al, 2023).

MSMEs are also part of economic growth in Indonesia, the role of Micro, Small, and Medium Enterprises (MSMEs) in the Indonesian economy is very significant, covering around 99% of the total business units in this country. In 2023, the number of MSME business actors will reach more than 65 million, showing an extraordinary contribution to the structure of the Indonesian economy. The contribution of MSMEs to Gross Domestic Product (GDP) reaches 61%, equivalent to IDR 9,580 trillion. This confirms that MSMEs are not only the main drivers of economic growth, but also the backbone of the national economy. In addition, MSMEs are also significant contributors to labor absorption, absorbing around 117 million workers or around 97% of the total workforce in Indonesia. This data reflects the role of MSMEs in providing employment opportunities for the wider community, as well as supporting

government efforts to overcome unemployment problems and improve social welfare. With a large contribution to creating jobs and national income, MSMEs are an important pillar in strengthening the Indonesian economy as a whole. It is important for the government and various stakeholders to continue to support and strengthen the MSME ecosystem to ensure the continuity and growth of this sector which is vital for the progress of the country (Histroika tv 2 October 2024. <https://historikatv.com>).

Table 1. Data on the Number of MSMEs 2019-2024

Year	2019	2020	2021	2022	2023	2024
<b>Number of MSMEs (Million)</b>	65.47	64	65.46	65.00	65.55	66
<b>Indonesia GDP (Trillion)</b>	14,837.4	15,434.2	16,058.2	16,745	17,500	18,200

Source: Indonesian MSMEs - Indonesian Chamber of Commerce and Industry 2023.

Micro, Small, and Medium Enterprises (MSMEs) play an important role in the Indonesian economy. The contribution of MSMEs to Gross Domestic Product (GDP) and employment is very significant. In addition, Micro, Small, and Medium Enterprises (MSMEs) are the backbone of the Indonesian economy. MSMEs in the national economy have a significant and important position (Maulana et al, 2024). This situation is very permissible because the existence of MSMEs is quite powerful in the Indonesian economy, with the alibi of a large number of factories and in each economic zone, a large capacity in absorbing activity power, and the participation of MSMEs in the manufacture of Gross Domestic Product (GDP) is very powerful. Another alibi is that micro and small businesses have advantages in aspects that use natural and solid artificial energy sources, the key is in the agricultural, food crops, plantations, livestock, fisheries, trade, and restaurants or restaurants. Medium businesses have advantages in the invention of additional figures in the lodging, financial, rental, industrial services and forestry sectors. Large businesses have advantages in manufacturing, electricity, gas, communications, and mining. So this matter is convincing that MSMEs and large businesses fulfill each other and want each other, even though in fact MSMEs are more powerful in absorbing activity power to their contribution to national income (Hafira et al, 2024).

Indonesia's GDP shows annual growth, increasing from IDR14,837.4 trillion in 2019 to a projected IDR18,200.0 trillion in 2024. Micro, Small, and Medium Enterprises (MSMEs) are the main pillars of the Indonesian economy, including in the North Sumatra region. Based on data from the Ministry of Cooperatives and SMEs (2023), the contribution of MSMEs in North Sumatra reached 62.4% of the GRDP and absorbed 96.8% of the workforce. However, access to sharia financing for MSMEs in this region is still low, with only 18% of MSMEs recorded as utilizing sharia banking services (OJK North Sumatra, 2023). Bank BJB Medan Branch Office, as one of the main banking players in North Sumatra, has a strategic role in bridging this gap through financing schemes.

Based on data from the Central Statistics Agency (BPS, 2023), MSMEs in North Sumatra contributed 61.3% to the Gross Regional Domestic Product (GRDP) and

absorbed 97.2% of the workforce. However, MSME access to financing in this region is still low, with only 19.5% of MSMEs recorded as utilizing banking services (OJK North Sumatra, 2023). Bank BJB Medan Branch Office, as a leading financial institution in the region, has a crucial role in increasing MSME financial inclusion through a fair principle-based financing scheme.

However, MSME access to formal financing is still limited, with only 22% obtaining bank credit (Bank Indonesia, 2022). This is where Islamic banking is required to innovate, considering that sharia principles that are oriented towards justice and equality can be a solution for MSMEs that are often constrained by collateral and credit history. External and government intervention in MSME financial access is common in developing countries. Kersten (2017) found that MSME financing programs have a positive and significant impact on performance measures such as capital investment and employment but do not have a significant effect on profitability and wages. However, in Indonesia itself, in a study conducted by Setiawan (2021), it was found that Islamic bank financing has a positive effect on the performance and welfare of MSME actors. The positive influence of financing on MSME performance has the potential to encourage increased performance of Islamic banks internally (Faisol, 2017). From an Islamic economic perspective, business development not only focuses on material profit but also adheres to ethical and spiritual principles (Panjaitan et al, 2024).

Bank capital and financing in the MSME sector affect the ability to obtain profits from Islamic banks. In implementing Islamic bank financing with the principle of profit/revenue sharing, the profits obtained by the bank also describe the results of the profits obtained by business actors. The same thing is supported by Purwanto (2019) who explained that the distribution of financing in the MSME sector is expected to increase profitability in Islamic banking, because MSMEs are resilient to global economic conditions, resulting in relatively small problematic financing. Ultimately, MSMEs can increase profitability.

Sharia financing mechanisms are divided into 2 categories, namely equity-based financing and debt-based financing. Islamic banks claim asset-based financing with debt and equity-based financing. Equity-based financing is *musharaka* (*Joint Venture or Partnership of Equity Participation*) and *Mudharabah* (*Partnership*). It is based on a profit and loss sharing model, where the profitability of Islamic institutions is directly related to their physical investment. This builds the main difference between Islamic banks and conventional banks that get returns in the form of interest on loans given to customers regardless of the fact that they invest these loans and whether they make a profit or not. While debt-based financing is carried out with the mechanism of the markup cost plus concept and this can be used in contracts based on sales, with deferred payments or purchases or based on leases. The most famous contracts are *Murabahah* "cost plus mark up", *Ijara* "leasing", *Salam* and *Istisna* (Ismaulina, et al 2022).

In the context of banking, MSME financing is an important instrument in supporting financial inclusion and strengthening the stability of the banking system as a whole. The principles of Islamic banking based on justice and balance in financial transactions provide opportunities for MSMEs to obtain fairer and more sustainable access to financing. However, its implementation is not without challenges. High financing risks due to information asymmetry, low financial literacy of MSMEs, and economic uncertainty are the main obstacles (Nugraheni & Febrian, 2020). In addition,

banks must maintain a balance between commercial objectives and principles that impact financial performance such as Return on Assets (ROA) and the Non-Performing Financing (NPF) ratio. This obstacle causes a significant financing gap for MSMEs, especially for those who do not yet have an adequate financial track record. MSME financing is an important instrument in supporting financial inclusion and strengthening the stability of the banking system as a whole.

However, on the other hand, banking also faces challenges in channeling financing to MSMEs due to higher credit risks, limitations in risk mitigation mechanisms, and the less than optimal financing guarantee system compared to conventional banking (Financial Services Authority, 2022). Therefore, a special strategy is needed so that banking can be more effective in channeling financing to Sharia MSMEs without sacrificing the financial stability and health of the bank itself.

Bank health is a fundamental aspect that must be maintained so that the banking system remains stable and sustainable. The ratio of non *-performing financing* (NPF) in banking must remain within safe limits so as not to burden the bank's financial performance. In this context, the banking strategy in channeling financing to Islamic MSMEs must be designed in such a way as not to only increase the growth of the real sector, but also maintain the quality of assets and healthy financial ratios. Increasing the financing ratio to Islamic MSMEs can have a positive impact on profitability

## METHODOLOGY

### A. Types of research

In this study, the researcher used a qualitative research method to collect information as supporting data for research in analyzing Banking Strategy in Financing Islamic MSMEs to Improve Bank Health. This research was conducted in Bank BJB in Medan city, more details are implemented in Medan branch. Jl. Iskandar Muda No. 23 D, E, F Medan Lingkungan I Merdeka Village, Medan Baru District, Medan City, North Sumatra. This study will focus on how BJB Sharia Bank can survive in the era of many increasingly ideal banks today, because it is known that BJB Bank is still able to analyze Banking strategies in Sharia MSME Financing to improve the health of the Bank. The selection of this research location is based on the quality of BJB Bank which is able to compete in the many conventional banks that provide many attractive programs in providing credit for opening community businesses. In addition, because some of the people I interviewed around where I live use BJB Bank for financing their MSMEs. This study uses two types of data, namely data obtained directly from the source (primary data) and data that has been collected previously (secondary data).

### B. Location and Subject of Research

This research was conducted at Bank BJB Medan Branch. The subjects of the study included: internal parties of Bank BJB Medan, such as financing managers, sharia credit analysts, and UMKM staff.

### C. Data Collection Sources and Techniques

Primary data sources are used in this study. Primary data were obtained from Semi-Structured interviews conducted with Bank BJB Medan (sharia financing

managers, risk analysts, compliance teams) and sharia MSME actors fostered by the bank. In addition to interviews, observations were also conducted, namely the selection process, monitoring, and distribution of sharia MSME financing.

#### **D. Data Analysis Techniques**

Data analysis is the process of collecting information from interviews, field notes, and documentation, classifying, characterizing, synthesizing, and arranging data into patterns, selecting important data that has been studied in depth, and drawing conclusions that are easy to understand both by oneself and others. Because this research is qualitative and only uses one variable, the analysis method is the Miles and Huberman model. According to Miles and Huberman (in Sugiyono, 2013:246), actions in qualitative data analysis are continuous and interactive in order to ensure data saturation. The steps in data analysis are:

a. *Data Reduction*

The researcher collects information and compiles it. The process of collecting and reducing data carried out by the researcher is related to the process of funding MSMEs with sharia financing through a credit system.

b. *Data Display* (Data Presentation)

The researcher presents the results of an interview with Denny, as a leader who often handles finances, especially sharia credit financing for MSMEs at Bank BJB, Medan branch.

c. *Conclusion Drawing* (Conclusion Drawing)

The researcher drew a number of conclusions from the results of data processing and interviews at the Bank BJB Syariah Medan branch office.

## **RESULTS AND DISCUSSION**

### **A. BJB Bank Medan Profile**

Bank BJB (PT Bank Pembangunan Daerah Jawa Barat dan Banten Tbk) was established on May 20, 1961 and is owned by the Regional Government of West Java and Banten Provinces. The bank, which was originally named Bank Karya Pembangunan Daerah Jawa Barat, has grown into one of the largest regional development banks in Indonesia. Bank BJB has an extensive network, with 65 branch offices, 314 sub-branch offices, 349 cash offices, 1,529 ATMs, and 171 payment terminals spread across several regions in Indonesia. One of its branch offices is located in Medan, North Sumatra. Bank bjb Medan Branch often communicates with its customers through social media, one of which is its official Instagram account.

Bank BJB Medan is one of the regional banks that focuses on regional economic development, including in the sharia MSME sector. This bank has implemented various strategies to increase sharia-based MSME financing to support the growth of the real sector and maintain bank health.

As a regional development bank, bank bjb is committed to providing quality banking services and contributing to regional economic development. They offer a variety of banking products and services, including savings, loans, and electronic banking services to meet the needs of the community and business actors in their operational areas.

## **B. Analysis of Bank BJB Medan's Strategy in Sharia MSME Financing to Maintain Bank Health**

Bank BJB Medan uses several strategies in distributing financing to sharia MSMEs, including:

### **a. Profit Sharing Based Financing Scheme**

- 1) Banks implement *musyarakah* and *mudharabah* contracts which allow for profit sharing between the bank and business actors.
- 2) This financing helps MSMEs obtain capital without the burden of fixed interest as in conventional banking.

### **b. Growth of Islamic MSME Financing**

Data shows an increase in sharia MSME financing from year to year. Bank BJB Medan recorded a growth of 10-15% in the distribution of sharia financing for the MSME sector. This shows a stable demand from small and medium business actors.

### **c. Financing Quality**

The Non-Performing Financing (NPF) ratio in the sharia MSME segment at Bank BJB Medan is not well maintained because the NPF value is >5%, which is the threshold set by the Financial Services Authority (OJK). Risk mitigation strategies such as strict assessment of business feasibility and assistance to customers are the main factors in maintaining financing quality.

### **d. Sharia Financing Products**

Bank BJB Medan provides various sharia financing products, such as *murabahah* (margin buying and selling), *mudharabah* (profit sharing), and *musyarakah* (cooperation). The majority of MSMEs prefer the *murabahah* scheme because of its ease in calculating installments and lower risk.

### **e. Financial Literacy and Mentoring**

Bank BJB Medan is also active in the sharia financial literacy program and business assistance for MSMEs. This program aims to improve the understanding of business actors regarding sharia financing and improve their ability to manage business finances.

### **f. Digitalization of Financing Services**

- 1) Bank BJB Medan is developing a digital platform to accelerate the financing application process and increase efficiency in monitoring MSME financing.
- 2) This digitalization system also increases transparency and makes it easier for customers to access their financial information.
- 3)

### **g. Alternative Collateral Based Financing Scheme**

The bank provides financing options without conventional collateral by using an assessment system based on cash flow and MSME business prospects.

- 1) This makes it easier for MSMEs that do not yet have fixed assets to still get financing.

### **h. Provision of Diverse Financing Products**

- 1) Bank BJB Medan offers various sharia financing products such as KUR Syariah, iB Mikro, and industrial ecosystem-based financing.

- 2) This product diversification allows MSMEs to choose a financing scheme that suits their needs.

Islamic banking has grown significantly over the past few decades, not only in Indonesia but also globally. The principles of Islamic finance, rooted in Sharia law, have been widely accepted as an alternative to the conventional banking system that relies heavily on interest-based transactions (*riba*). Islamic banking in Indonesia has experienced significant development in recent years, driven by increasing public awareness of Islamic economic principles and the growth of a sizable Muslim population. (Lubis 2024). The following are the stages in resolving problematic financing at Bank BJB Syariah Medan Branch, including:

- 1) Collection is carried out (for DPK category customers)
- 2) Restructuring

In order to improve financing activities that are experiencing difficulties in meeting their obligations, restructuring is an effort to maintain the sustainability of consumer financing. In accordance with the policies agreed upon between the bank and the customer, restructuring can be carried out in the form of extending the credit payment period or relaxing customer installments. Customers who still have a reliable source of income are the target of restructuring services.

- 3) Collateral Redemption

Disbursement can be made by consumers or third parties with customer permission.

Things that must be considered in redeeming collateral include:

- a. If the consumer is in arrears on his/her obligations, then the collateral redemption offer is basically initiated. However, this offer must be initiated after the customer receives Warning Letter II to avoid offending the customer or the collateral owner.
- b. The customer and guarantor (collateral owner) must agree to the redemption of the collateral; the redemption price must be optimal based on applicable provisions; and a collateral assessment must be carried out to determine the current price as a basis for determining the redemption price.
- c. The latest NJOP must be taken into account in calculating the purchase price.
- d) According to applicable provisions, collateral must be handed over to the rightful owner. Customers need to be reminded that if the bank has issued Warning Letter III, it means that the collateral auction will be carried out immediately.

This is supported by research (Meutea 2019). Bank BJB has three options in handling problematic loans, namely credit restructuring and settlement of problematic loans, direct collection, and sale of collateral through bank auctions. The two options offered by Bank BJB Medan Branch are selling debtor collateral that has been used as credit collateral or restructuring credit for debtors who are still willing to cooperate in good faith, their businesses are still running, and have promising business prospects. In order to submit a restructuring plan, debtors must go through a series of procedures called submission (Kasmir 2017).

To achieve the best and most profitable settlement, this procedure ensures that the debtor knows and complies with the bank's criteria. The restructuring stage begins with a credit restructuring initiative, the bank's restructuring initiative mentions the name of the problematic credit debtor either verbally (by telephone) or in writing (letter), after which the bank holds a discussion with the debtor (Nugroho, 2021). Regarding the credit arrangements made by the debtor, the bank gives the debtor two options to pay off his credit, specifically offering restructuring support or selling collateral if the debtor chooses to make payments. If the debtor's application for restructuring is approved by the bank, the bank will make a visit. The bank strongly urges the debtor to send a restructuring letter to the bank management to request credit restructuring (Santoso, 2018). Research (Arista, 2024) supports this by conveying to the debtor that the bank has negotiated the tax exemption requested by the debtor during the visit. The bank has also prepared a visit report, negotiation protocol, assessment of the debtor's business operations, collateral, and company photos. After conducting customer visits and negotiation stages, the bank will evaluate the proposed restructuring steps by looking at the debtor's business and financial conditions.

This is Bank BJB giving time to debtors as a payment deadline before the auction of collateral that they use as collateral at the bank. This allows the bank to continue running and gives debtors time to be able to make choices about their problem credit. Choosing to provide a restructuring agreement to the debtor After the decision to restructure, the bank will formalize the documents needed to complete the process, such as a copy of the visit letter to the debtor, minutes of negotiations with the debtor, collateral assessment results, and photos of the debtor's business activities. If the restructuring documents are ready, the bank will take over the debtor's business and finances, or those that have been restructured, to ensure that the debtor's credit is no longer affected. (Rahayu 2024) .

### *C. Impact of Financing Strategy on Bank Health*

To determine the impact of financing strategies on bank health, the indicators that will be studied are:

#### *a. Capital*

- 1) Sufficient capital, capital capability, and capital projections (future trends) to bear the risk.
- 2) Access to capital sources, capital plans to support corporate expansion, and shareholder financial success, as well as the capacity to maintain additional capital requirements generated from profits.

#### *b. Asset Quality*

- 1) Productive asset quality, emergence of poor productive assets, concentration of risk exposure, and risk exposure to core clients .
- 2) Adequacy of policies and procedures, documentation systems, internal review processes, and approaches to managing distressed productive assets.

#### *c. Management*

The quality of general management, the application of risk management, and in particular, management's understanding of the bank's risks.



- 1) Compliance of the Bank or UUS with laws and regulations, obligations to Bank Indonesia and other stakeholders, and sharia principles, such as community education and implementation of social duties.

d. Profitability

- 1) The ability to generate profits, the ability of profits to support expansion and cover risks, and the level of efficiency.
- 2) Diversification of income, such as the bank's ability to provide fee-based income, diversification of funds, and application of accounting principles in calculating payments and fees .

e. Liquidity

- 1) Capacity to mitigate short-term needs, potential maturity mismatches, and funding source sentiment.
- 2) stability , access to funding sources, and liquidity management policies.

f. Sensitivity to Market Risk

- 1) The capital capacity of the Bank or AS to absorb possible losses due to adverse exchange rate fluctuations .
- 2) Implementation of adequate market risk management (Ningkusuma, 2018).

Table 3. Financial Factor Assessment Weight Matrix

<b>Information</b>	<b>Weight</b>
<b>Capital factor rating</b>	20 %
<b>Asset quality factor rating</b>	50%
<b>Profitability factor ranking</b>	5 %
<b>Liquidity factor rating</b>	15%
<b>Sensitivity factor rating for market risk</b>	10 %

Source: Bank BJB Medan

In the results of the interview conducted with Denny Mulyadi as an officer of Bank BJB Syariah Medan Branch, he provided answers to researcher questions related to the strategy for BJB Syariah banking to continue to move forward even though there are increasingly superior banks today and BJB Bank is able to compete to increase the company's profit and profit. One of the advantages of BJB Syariah Bank in Medan City is increasing liquidity to increase its scale in society so that it can compete and remain stable, one of the performances that allows BJB Bank to still be able to compete at this time is providing financing to MSMEs through sharia financing, the functions of this liquidity include:

- a. In order to continue to meet Bank Indonesia standards
- b. Providing guarantees for credit disbursement in the community, especially for MSMEs

- c. In order to provide strong defense for banks so that they can continue to use clearing
- d. In order to provide strength to the bank so that it can compete with the increasingly numerous and superior banks today.
- e. Increasing public trust in banks today
- f. In order to reduce the credit risk in banking which is increasingly damaging the health of banking.
- g. Providing improvements to MSME capabilities through sharia financing programs
- h. Providing convenience in accessing funds to carry out loans.

So in this case it is known that the description of the liquidity function of Bank BJB Medan Branch is to provide sustainability and health to banking. The existence of liquidity not only provides convenience to the community for accessing funds but also provides a level of security in the community, both for saving their money in the bank and implementing loans for capital with access that is not troublesome and complicated, making Bank BJB Syariah Medan Branch able and able to compete in the current era even though there are more and more new banks that offer diverse and attractive products.

To see the level of bank health, it can also be done by measuring the following 5 indicators according to Bank BJB Medan data.

#### 1. *Capital Adequacy Ratio (CAR)*

A healthy sharia MSME financing strategy increases the bank's core capital, strengthens CAR, and ensures that the bank has sufficient capital to face financial risks.

$$CAR = \frac{\text{Modal}}{\text{Aset Tertimbang Menurut Risiko}} \times 100\% = \frac{401.884}{14.245.788} \times 100\% = 2,82\%$$

This value shows that Bank BJB Medan has insufficient capital to cover existing credit risks with the ideal parameter standard of 8-12%.

#### 2. *Non-Performing Financing (NP F)*

To measure the health of the bank, the NP F used is based on data from 2022-2024. The NP F ratio exceeds 5% due to the lack of strict risk mitigation policies, such as business feasibility analysis and digital-based monitoring systems. Based on the financial report data of Bank BJB Medan, the NP F value for 2 consecutive years is:

$$NPF\ 2022 = 4,6\%$$

$$NPF\ 2023 = 7,5\%$$

Meanwhile, the NP F value for 2024 uses the following formula:

$$NPF\ 2024 = \frac{\text{Total Kredit Bermasalah}}{\text{Total Kredit yang Diberikan}} \times 100\% = \frac{6.045.813}{120.330.484} \times 100\% = 5,024\%$$

Based on the NPF value, in 2022 the value is still below the safe limit which indicates that the bank category is still healthy, while in 2023-2024 the NPF value exceeds the safe limit set by OJK (<5%).

3. *Return on Assets (ROA)* With the increasing profitability of the sharia MSME financing sector, Bank BJB Medan's ROA has increased, indicating efficiency in the use of assets.

$$ROA = \frac{\text{Laba Bersih}}{\text{Total Aset}} \times 100\% = \frac{23.174}{13.599.828} \times 100\% = 0,17\%$$

A positive ROA indicates the bank's efficiency in utilizing its assets to generate profits.

4. *Financing to Deposit Ratio (FDR)* Balanced financing growth with an increase in third party funds maintains LDR within optimal limits, supporting the bank's liquidity and financial stability.

$$FDR = \frac{\text{Total kredit yang diberikan}}{\text{Total Dana Pihak Ketiga}} \times 100\% = \frac{120.330.484}{1.083.910} \times 100\% = 111\%$$

This value is within the optimal range to maintain bank liquidity.

#### 5. Risk Management

Financing strategies based on sharia principles and digital system support increase the effectiveness of risk management, reduce the potential for problematic financing, and strengthen bank resilience to economic pressures. Bank BJB Medan has implemented risk management by taking the following steps:

1) *Credit Worthiness Assessment*

Using an AI-based scoring system to determine the eligibility of MSMEs to receive financing.

*Credit Portfolio Diversification*

Avoiding credit concentration in certain sectors to reduce systemic risk.

2) *Digital Based Credit Monitoring*

Leveraging technology for real-time credit monitoring to detect potential problem loans early.

From the research results, the implementation of the sharia MSME financing strategy provides several benefits for the health of Bank BJB Medan, including:

1. *Increase in Productive Assets*

With healthy and well-managed financing growth, Bank BJB Medan can increase its productive asset portfolio. This helps improve the bank's profitability and resilience to economic risks.

2. *Credit Risk Mitigation*

The application of the principle of prudence in financing distribution, such as business feasibility analysis and continuous monitoring, keeps the NPF ratio low. Thus, the potential for bad debt can be minimized.

3. *Strengthening Customer Loyalty*

Providing business assistance and financial literacy increases the trust and loyalty of MSMEs towards Bank BJB Medan. This creates a long-term relationship that is beneficial for both parties.

4. *Operational Efficiency through Digitalization*

The implementation of digital technology in Islamic banking services provides operational efficiency, reduces administrative costs, and accelerates the financing process. Digitalization also expands the reach of services to MSMEs in remote areas.

Bank BJB Medan's strategy is in line with the findings (Ascarya 2021) that risk collaboration (risk-sharing) reduces the burden of bad debts. However, the low financial literacy of MSMEs is an obstacle, as identified (Sumut 2023) .

#### D. Challenges and Solutions in Implementing Sharia MSME Financing

Although this strategy has shown positive results, there are several challenges that need to be considered:

1. Education and Understanding of MSMEs There are still MSME actors who do not understand the concept of sharia financing. Bank BJB Medan needs to improve socialization and training programs so that more MSMEs can utilize sharia products optimally.
2. Competition with Conventional Banks Conventional banks also offer financing schemes with competitive interest rates. Bank BJB Medan needs to continue to develop product and service innovations to remain attractive to MSMEs.

**Strengthening Digital Infrastructure** The development of digital systems requires significant investment. Bank BJB Medan must ensure that the digital infrastructure developed can optimally meet customer needs and remain secure.

### CONCLUSION

This study highlights the strategies implemented by Bank BJB Medan in financing sharia MSMEs to improve banking health. Bank BJB Medan uses various sharia-based financing mechanisms, such as *musyarakah* and *mudharabah* contracts, which allow profit sharing between banks and business actors without an interest system. The results of the study show that sharia MSME financing has decreased with a *Non-Performing Financing* (NPF) ratio exceeding 5%. Bank BJB Medan also adopts innovative approaches such as digitalization of financing services, diversification of financial products, and assistance and financial literacy for MSME actors to ensure the sustainability of their businesses. Several challenges are still faced, including low financial literacy of MSMEs, competition with conventional banking, and the need for investment in digital infrastructure. Therefore, Bank BJB Medan needs to continue to improve education for MSME actors, strengthen product competitiveness, and optimize digital systems to be more inclusive and efficient. Overall, the sharia MSME financing strategy implemented by Bank BJB Medan has had a positive impact on bank health by increasing profitability, mitigating credit risk, and expanding access to financing for MSMEs. The implementation of appropriate policies and support from various stakeholders are expected to continue to encourage the growth of the sharia MSME sector and strengthen the stability of sharia banking in Indonesia.

The results of this study have several implications for the Islamic banking sector, especially in the Islamic MSME financing strategy to maintain bank health: (1) **Strengthening Financial Inclusion** . The sharia-based financing strategy implemented by Bank BJB Medan can increase MSME access to fairer and more sustainable funding sources, thereby strengthening financial inclusion in this sector, (2) **Optimizing Risk Mitigation** . With the high Non-Performing Financing (NPF) ratio, Islamic banks need to strengthen risk mitigation mechanisms, including by conducting stricter assessments of MSME business feasibility and expanding the use of digital systems for credit monitoring , (3) **Digitalization of Financing Services** . The application of financial technology in the Islamic financing system not only increases operational

efficiency but also expands the scope of services to MSMEs that have not been reached by conventional banking services , (4) **Increasing Financial Literacy** . The low understanding of MSME actors regarding the concept of Islamic financing indicates the need to improve financial literacy programs so that MSMEs better understand the benefits and financing mechanisms that are in accordance with Islamic principles , and (5) **Competitiveness with Conventional Banks** . Competition with conventional banks that offer low-interest credit schemes requires Islamic banking to continue to innovate in developing more flexible and attractive financing products for MSMEs.

Although this study provides important insights, there are several limitations that need to be considered: (1) **Limited to One Case Study** . This study only focuses on Bank BJB Medan, so the results may not be fully generalizable to all Islamic banking in Indonesia , (2) **Qualitative Approach** . The use of qualitative methods provides an in-depth understanding of financing strategies, but does not provide a more comprehensive quantitative analysis of the specific impact on bank health numerically , (3) **Limited Data on a Certain Period** . The data used in this study is limited to a certain period, so it cannot describe the long-term trend of Islamic MSME financing strategies on banking health , (4) **Focus on Internal Perspective** . Interviews and observations in this study explore more the perspective of the bank, while the perspective of MSME actors as recipients of financing benefits has not been explored in depth and (5) **Has Not Analyzed the Impact of Regulation on Financing Strategies** . Regulatory factors that can affect the effectiveness of Islamic MSME financing strategies have not been analyzed thoroughly, so the results of this study still require further study in terms of Islamic financial policies and regulations.

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