

The Effect of Mudharabah Financing on The Welfare of Youth-Owned MSMEs in Aceh Province

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Abstract. *Although Aceh Province has formally implemented an Islamic financial system, the utilization of mudharabah financing by youth-owned MSMEs remains suboptimal and shows considerable regional variation. This condition raises an empirical question regarding the extent to which mudharabah financing actually affects the welfare of youth MSME actors. This study aims to analyze the effect of mudharabah financing on the welfare level of youth-owned MSMEs in Aceh Province. The research employs a quantitative approach involving 50 youth MSME respondents distributed across Banda Aceh, Aceh Besar, Lhokseumawe, Aceh Barat, and Subulussalam. Data were collected through structured questionnaires and analyzed using descriptive statistics and simple linear regression. The results indicate that the level of mudharabah financing utilization falls within the low to moderate category, with substantial disparities in access across regions. Regression analysis reveals that mudharabah financing has a positive and significant effect on youth welfare, with a coefficient of determination of 41.2 percent. These findings confirm that limited access to mudharabah financing directly contributes to slower improvements in income and business stability among youth entrepreneurs. Therefore, strengthening access to and utilization of mudharabah financing is a key factor in enhancing the welfare of youth-owned MSMEs in Aceh.*

Keywords: Aceh, mudharabah financing, youth welfare, youth-owned MSMEs.

1. Introduction

The development of youth-led Micro, Small, and Medium Enterprises (MSMEs) in Indonesia has shown an increasingly strong trend in recent years, particularly alongside the acceleration of digitalization that has created new business opportunities for the younger generation. In Aceh Province, youth MSMEs have become one of the key drivers of regional economic growth, especially in the culinary sector, Muslim fashion, and digital-based businesses. The contribution of youth MSMEs to the increase in regional Gross Regional Domestic Product (GRDP) after 2021 indicates that young people play a strategic role in strengthening the local economy (Rahmadani, 2023). However, this potential has not been fully accompanied by improvements in the welfare of young MSME actors. One of the main challenges faced is limited access to capital, particularly financing that aligns with Islamic (Sharia) principles. Aceh, as a region that has implemented the Qanun on Sharia Financial Institutions since 2018, designates Sharia financing as the only formal financing scheme. Nevertheless, in practice, the level of utilization of Sharia financing by youth MSMEs remains relatively low. Low levels of Sharia financial literacy have caused some young entrepreneurs to lack an understanding of the characteristics of Sharia financing, which in turn has resulted in minimal use of such financing for business development (Putri et al., 2023).

Mudharabah contracts represent one of the most relevant financing models for youth MSMEs, as they apply a profit-sharing mechanism and do not impose fixed installment obligations on business actors. Several studies indicate that mudharabah financing can enhance the sustainability of micro-enterprises when supported by adequate governance and business mentoring (Putra & Fajri, 2024). However, the implementation of mudharabah among youth MSMEs still faces various challenges, including information asymmetry, moral hazard risks, and limited managerial capacity, as well as inadequate financial record-keeping among entrepreneurs (Aksan, 2024).

On the other hand, the development of Islamic fintech presents new opportunities to expand access to mudharabah financing through digital platforms. The integration of financial technology with profit-sharing principles is considered capable of improving financial inclusion through easier access and more efficient financing processes (Masruroh, 2025). Nevertheless, the readiness of digital infrastructure, financial literacy, and the effectiveness of Sharia policy implementation remain serious challenges, particularly in non-urban areas. Inequality in access to financing across regions and limited business assistance have resulted in uneven impacts of mudharabah financing on youth welfare.

Based on these conditions, there is a research problem that needs to be examined scientifically, namely the extent to which mudharabah financing truly affects the welfare of youth MSME actors in Aceh Province. This issue is important, considering that Sharia financing is expected not only to encourage business growth but also to improve income, business stability, and the sustainable welfare of young entrepreneurs. Therefore, this study aims to analyze the effect of mudharabah financing on the welfare of youth MSME actors in Aceh Province.

2. Method

This study employed a quantitative approach with a cross-sectional survey design to analyze the effect of mudharabah financing on the welfare of youth MSME actors in Aceh Province. The quantitative approach was chosen because it enabled objective and measurable testing of relationships between variables through statistical analysis (Creswell & Creswell, 2023; Hair et al., 2022). The population of this study consisted of youth entrepreneurs engaged in Micro, Small, and Medium Enterprises (MSMEs) in Aceh Province. The research sample comprised 50 respondents selected using purposive sampling, with criteria including young individuals who operated micro, small, and medium enterprises and possessed knowledge or experience related to Islamic financing. The use of purposive sampling was considered appropriate in socio-economic research when researchers required respondents with specific characteristics (Ramadani et al., 2025).

The selected respondents were from five different regions in Aceh, namely Banda Aceh City, Aceh Besar Regency, Lhokseumawe City, West Aceh Regency, and Subulussalam City, to capture variations in MSME conditions across the regions. The data were collected through structured questionnaires using a five-point Likert scale, which is effective for measuring perceptions and the level of financing utilization as well as the welfare of MSME actors (Tandibua, 2025).

The independent variable in this study was mudharabah financing, while the dependent variable was the welfare of youth MSME actors. The data analysis was conducted using descriptive statistics and simple linear regression to examine the effect of mudharabah financing on youth welfare. Prior to the regression analysis, the data were

tested for validity and reliability to ensure the quality of the research instruments (Hair et al., 2022). All statistical tests were conducted at a 5 percent significance level.

3. Results and Discussions

3.1 Characteristics of Youth MSME Respondents

This study involved 50 youth MSME actors distributed across five regions in Aceh Province, namely Banda Aceh City, Aceh Besar Regency, Lhokseumawe City, West Aceh Regency, and Subulussalam City. The characteristics of the respondents are presented in the following figure.

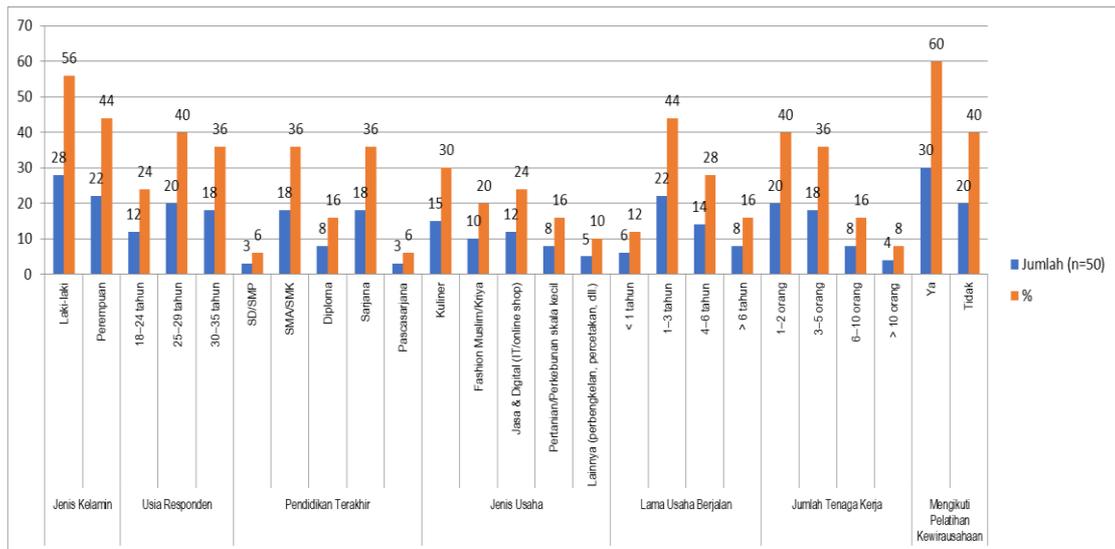


Figure 1. Distribution of Respondent Profiles.

Based on the figure above, the majority of respondents were male (56%) and fell within the 25-29 age group (40%). Most businesses were in the early to growth stages (1-3 years of operation) and classified as micro and small enterprises. This indicates that these early-stage MSMEs still required capital support and business stability. This is consistent with Bahtiar et al. (2024), who emphasized that MSMEs in the early stages are highly sensitive to financing constraints. Furthermore, Mittal and Raman (2021) stated that early-stage MSMEs are more suitable for profit-and-loss sharing financing schemes, as they are more flexible and adaptive to income uncertainty. Similar findings were also reported by Tekola and Gidey (2019), who highlighted that business stability is the primary foundation of MSME welfare rather than demographic factors alone.

3.2 Descriptive Statistics of Research Variables

An overview of the level of utilization of mudharabah financing and the welfare of youth is presented in Table 1.

Table 1. Descriptive Statistics of Research Variables.

Variable	N	Mean	SD	Min	Max
Mudharabah Financing (X)	50	2.44	0.81	1.00	4.00
Youth Welfare (Y)	50	3.23	0.72	1.80	4.60

The mean value of mudharabah financing utilization falls within the low-moderate

category, while the level of youth welfare is classified as relatively good. The relatively large standard deviation indicates considerable variation among respondents, particularly with respect to access to financing and the level of Islamic financial literacy. This finding is consistent with Majid and Nugraha (2022), who stated that differences in financial literacy lead to significant variation in the utilization of Islamic financing among MSMEs. Furthermore, Firmansyah et al. (2024) emphasized that Islamic financial literacy has a direct effect on the effectiveness of capital management and the improvement of MSME actors' welfare.

3.3 Descriptive Analysis by Region

This section presents a regional descriptive analysis to illustrate variations in Islamic financing conditions and the performance of youth MSMEs across the five research locations. The indicators analyzed include access to financing, business impact, Islamic financial literacy, business mentoring, and respondents' satisfaction levels.

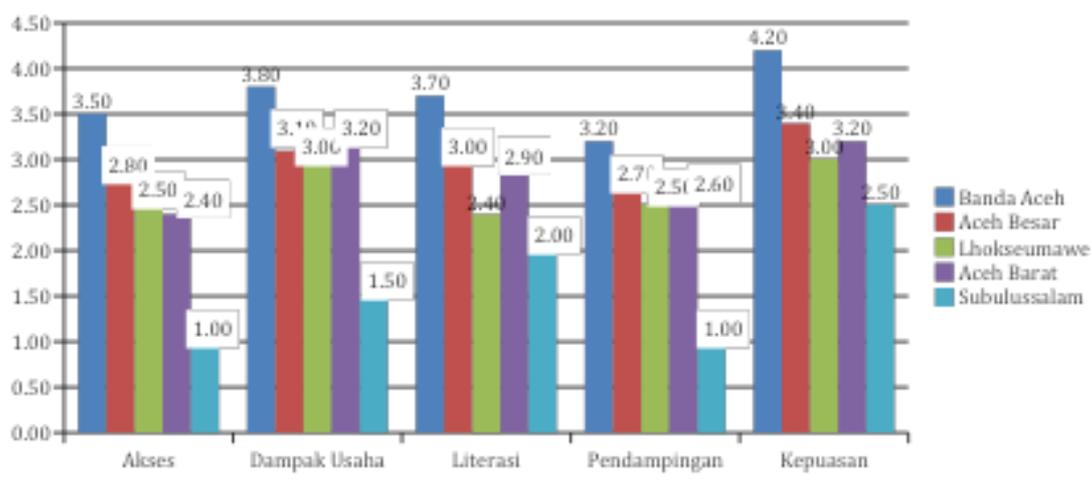


Figure 2. Average Indicator Scores by Region.

Based on the table and figure above, there are clear and significant differences among the research regions. The regional descriptive analysis reveals a pronounced disparity in access to and utilization of Islamic financing across the five study locations. Banda Aceh ranks highest across all indicators, particularly in access to financing (3.50) and satisfaction (4.20). These high scores not only reflect the availability of Islamic financing programs but also indicate that youth MSME actors in Banda Aceh experience more tangible business benefits, as evidenced by the business impact score (3.80). This finding demonstrates consistency between the quantitative data and qualitative evidence, in which MSME actors in Banda Aceh reported increased revenues and stronger linkages with financial institutions.

In contrast, Subulussalam exhibits the most disadvantaged conditions, especially in terms of access to financing (1.00) and business mentoring (1.00). These low scores are not merely descriptive figures but have clear empirical implications, as limited access directly constrains the ability of youth MSMEs to improve business performance, which is reflected in the very low business impact score (1.50). Qualitative findings further reinforce this interpretation, as most respondents in Subulussalam stated that they remain heavily dependent on personal capital without support from Islamic financial institutions.

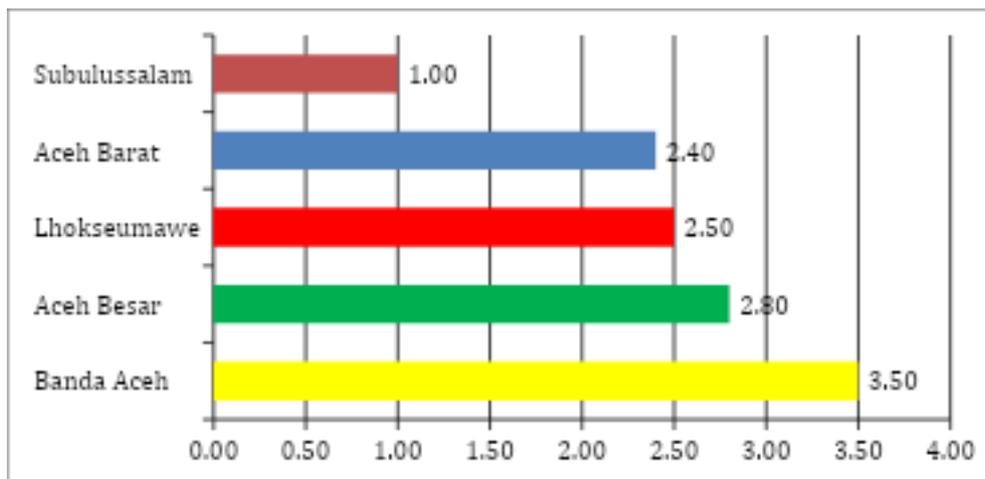


Figure 3. Heat Chart Visualization of Financing Access Across Regions.

The results indicate a clear disparity across regions. Banda Aceh records the highest scores across all indicators, while Subulussalam ranks the lowest, particularly in terms of access to financing and business mentoring. These findings reinforce the results of Geubrina et al. (2023), who demonstrated that unequal distribution of Islamic financial institutions in Aceh has a significant impact on MSME performance. More broadly, Al Arif (2024) emphasized that geographical disparities in Islamic financial infrastructure lead to differences in MSME welfare across regions.

3.4 Development of Youth MSMEs by Region

The development of youth MSMEs based on a combination of quantitative and qualitative data is presented in Table 2 below.

Table 2. Development of Youth MSMEs by Region.

Region	Business Age	Market Expansion	Revenue Growth	Workforce	Business Stability
Banda Aceh	High	High	High	Medium-High	High
Aceh Besar	Moderate	Moderate	Moderate	Moderate	Moderate
Lhokseumawe	Low-Moderate	Low	Low	Low	Low
Aceh Barat	Moderate	Low-Moderate	Moderate	Low	Low
Subulussalam	Low	Low	Very Low	Low	Low

Source: Research Data (2025).

Table 2 shows that Banda Aceh has the highest level of youth MSME development, while Subulussalam lags behind. This disparity indicates that the development of youth MSMEs is strongly influenced by access to capital, Islamic financial literacy, and regional policy support. This finding is consistent with Midu and Yusuf (2024), who stated that limited availability of Islamic financial institutions is a major factor contributing to low financial inclusion in certain regions of Aceh.

3.5 Simple Linear Regression Analysis

Simple linear regression analysis was conducted to examine the relationship between mudharabah financing (X) and the welfare of youth MSME actors (Y). This model was selected in accordance with the research design, which involves only one main

predictor, namely the level of utilization of mudharabah financing.

a. Model Summary

Model	R	R Square	Adjusted R-Squared	Std. Error of Estimate
1	0.642	0.412	0.400	0.556

The results show an R-squared value of 0.412, indicating that mudharabah financing explains approximately 41.2% of the variation in youth welfare. This value reflects a relatively strong contribution for a model with a single predictor. The adjusted R-squared value of 0.400 suggests good model stability, while the standard error of estimate of 0.556 indicates that the dispersion of the data remains within an acceptable tolerance range.

b. ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	6.644	1	6.644	21.517	0.000
Residual	9.469	48	0.197		
Total	16.113	49			

The ANOVA test results indicate an F-value of 21.517 with $p < 0.001$, confirming that the regression model is statistically significant. This finding suggests that mudharabah financing has a statistically significant relationship with youth welfare. However, given that this study employs a cross-sectional design, the results should not be interpreted as a causal relationship but rather as a strong association between the two variables.

c. Coefficients

Model	Unstandardized B	Std. Error	Beta	t	Sig.
(Constant)	1,852	0.231	-	8.015	0.000
<i>Mudharabah</i> Financing (X)	0.566	0.122	0.642	4.639	0.000

The results of the simple linear regression analysis indicate that mudharabah financing has a positive and significant effect on the welfare of youth MSMEs, with an R^2 value of 0.412. This means that 41.2% of the variation in youth welfare can be explained by the level of utilization of mudharabah financing. This finding is consistent with the study by Khairunnisa and Nofrianto (2023), which found that mudharabah financing is able to enhance MSME income and business stability through a profit-sharing mechanism. The result is further supported by Fitria et al. (2022), who reported that profit-sharing-based financing contributes significantly to MSME welfare in countries with well-developed Islamic financial ecosystems. In addition, Azzamani and Jaharuddin (2024) demonstrated that business stability is the welfare dimension most responsive to mudharabah financing.

4. Conclusions

This study concludes that mudharabah financing has a positive and significant effect on the welfare of youth MSME actors in Aceh Province. The results of the simple linear regression analysis show that the level of utilization of mudharabah financing explains 41.2 percent of the variation in youth welfare, which includes income, business stability, business satisfaction, and perceived business growth. These findings confirm that profit-sharing-based Islamic financing instruments are both relevant and effective in supporting the welfare of youth-owned MSMEs. Nevertheless, this study also finds that the utilization of mudharabah financing remains at a low to moderate level, with substantial disparities in access across regions. Areas with better access to financing and higher levels of Islamic financial literacy, such as Banda Aceh, exhibit higher levels of youth welfare compared to regions with limited access, such as Subulussalam. This indicates that the formal existence of an Islamic financial system does not automatically guarantee the equitable distribution of financing benefits for youth MSMEs. Furthermore, this study highlights the critical role of Islamic financial literacy in strengthening the impact of mudharabah financing. Youth entrepreneurs with a better understanding of profit-sharing mechanisms tend to achieve higher levels of welfare, even when they do not directly receive financing. Thus, the effectiveness of mudharabah financing is determined not only by access to capital but also by the capacity of youth entrepreneurs to understand and manage such financing effectively.

Overall, this study concludes that optimizing mudharabah financing has strong potential as a strategic approach to improving the welfare of youth MSMEs in Aceh. These efforts should be accompanied by enhanced Islamic financial literacy and more equitable access to Islamic financial institutions across regions so that the positive impacts of mudharabah financing can be experienced more broadly and sustainably.

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