

ANALYSIS OF THE EFFECTIVENESS OF LEASING FINANCING IN IMPROVING ACCESS TO CAPITAL FOR MICRO AND SMALL ENTERPRISES

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Abstract

Sharia leasing provides an asset-based financing mechanism that enables Micro and Small Enterprises (MSEs) to obtain productive equipment without requiring substantial upfront capital. This study analyzes the effectiveness of sharia leasing, particularly the *ijarah* and *ijarah muntahiyah bittamlik* (IMBT) contracts, in improving MSEs' access to capital. Using literature review methods, this study evaluates scholarly articles, books, and regulatory documents related to Islamic financing. The findings indicate that sharia leasing effectively enhances access to capital because it does not require additional collateral, offers flexible payment structures, and includes asset ownership options at the end of the lease period. However, its implementation faces challenges such as limited sharia leasing institutions, low financial literacy, and insufficient product innovation. Strengthening education, expanding institutional reach, and developing more flexible leasing models are needed to maximize its contribution to MSE development.

Keywords: Sharia Leasing, *Ijarah*, IMBT, Capital Access, MSEs

INTRODUCTION

Micro and Small Enterprises (MSEs) represent one of the most vital pillars of Indonesia's economic structure because of their significant contribution to employment, income generation, and local economic resilience. Their presence is crucial, especially in regions where large-scale industries are limited and economic activities depend heavily on grassroots entrepreneurship. Despite this central role, MSEs continue to face a fundamental challenge: limited capital to obtain productive assets necessary for upgrading their operations. Many MSEs are forced to rely on simple equipment, operate within restricted production capacity, and function without adequate technological support. As a result, their business growth becomes slow and uneven, inhibiting their ability to compete and scale up effectively.

This capital constraint is often exacerbated by structural and administrative barriers in accessing formal financing. Financial institutions, particularly banks, impose several requirements such as collateral, a good credit record, and well-maintained financial statements.

For most MSEs, fulfilling these requirements is difficult because they generally operate informally, lack fixed assets that can serve as collateral, and do not possess standardized documentation of financial activities. According to Kasmir (2016), these conditions place MSEs at a disadvantage, making conventional bank financing largely inaccessible. Consequently, there is a clear need for financing alternatives that are more flexible, less burdensome, and better aligned with the operational characteristics of small-scale enterprises.

Within the framework of Islamic finance, Islamic leasing appears as a promising solution. Leasing contracts such as *ijarah* and *ijarah muntahiyah bittamlik* (IMBT) offer an asset-based financing model that differs fundamentally from conventional loan-based mechanisms. Instead of providing funds directly, Islamic leasing enables MSEs to access productive assets by paying rental fees over a specified period. This arrangement significantly reduces the burden of large initial investment costs. Through the *ijarah* scheme, MSEs can utilize production equipment immediately without needing substantial upfront capital (Ascarya, 2013). Meanwhile, IMBT offers additional flexibility by granting lessees the option to acquire ownership of the asset once the lease period ends (Ayub, 2007). These structures make Islamic leasing more adaptive to the realities of MSEs, as the leased asset itself effectively becomes the collateral.

In addition to accessibility, Islamic leasing also provides various operational benefits. It offers cost certainty because rental fees are predetermined and remain stable throughout the contract period. The transparency of contract terms contributes to greater trust and minimizes misunderstandings between the financing institution and the lessee. For MSEs that often struggle with irregular or limited cash flow, fixed and scheduled rental payments allow for better financial planning (Hasan, 2014). Moreover, the direct utilization of productive assets enhances operational capacity, enabling MSEs to increase their output, expand their market reach, and potentially improve business performance.

Despite these advantages, the implementation of Islamic leasing is not without challenges. One of the key constraints is the low level of Islamic financial literacy among MSEs. Many business owners do not fully understand the differences between Islamic leasing mechanisms and conventional credit, leading to misconceptions or hesitation when considering this financing option (Saad, 2012). Additionally, the number of Islamic leasing institutions remains limited, resulting in services that are not widely accessible across different regions. Another perceived obstacle is the assumption that rental fees under leasing agreements are relatively high. Although these costs generally reflect asset ownership, maintenance responsibilities, and the risk assumed by the financing institution, the perception persists and affects the willingness of MSEs to adopt leasing (Khan, 2013).

Given these issues, it becomes essential to evaluate how effective Islamic leasing truly is in improving MSEs' access to capital. This study therefore aims to analyze the mechanisms of *ijarah* and IMBT, examine the benefits they offer to MSE productivity, and identify the barriers that must be addressed to optimize the role of Islamic leasing in supporting small business development. By doing so, the research seeks to provide a comprehensive understanding of the potential and limitations of Islamic leasing as an alternative financing solution for MSEs in Indonesia.

IMPLEMENTATION METHOD

This research uses a qualitative approach with a library research method. The choice of this method is based on the nature of the topic, which revolves around Islamic leasing concepts such as *ijarah* and *Ijarah Muntahiyah bi al-Tamlik (IMBT)*, as well as their role in expanding MSME access to capital. Because these topics are closely linked to theoretical frameworks, sharia principles, financial mechanisms, and practical applications in Islamic financial institutions, a detailed examination of written sources is essential. Library research allows the study to explore the intellectual foundations of Islamic leasing while also understanding its real-world implications through previously documented findings.

Data for this study were collected from various types of literature that support both conceptual and practical analysis. Textbooks on Islamic economics provide the main theoretical basis, especially works by Abdullah (2017), Ascarya (2013), and Hasan (2014), which explain fundamental concepts of Islamic contracts, financial instruments, and sharia-based economic behavior. These textbooks serve as the first layer of reference for understanding how *ijarah* and IMBT are structured, what objectives they aim to achieve, and how they differ from conventional leasing models.

In addition to textbooks, academic articles from national and international journals were reviewed to enrich the research with updated perspectives and empirical insights. Studies such as those conducted by Saad (2012) and Yusoff (2018) offer discussions on the implementation of *ijarah*, challenges faced in its application, and its impact on business sectors, including MSMEs. These articles help the researcher observe current trends, evaluate findings from previous studies, and build connections between theoretical concepts and practical application in different countries.

Regulatory documents and industry reports also form an important part of the data. These include sharia standards, operational guidelines for Islamic financial institutions, and publications from financial authorities. Examining these sources helps ensure that the analysis does not remain purely theoretical, but also reflects the actual regulatory environment where Islamic leasing is practiced. By understanding how regulatory bodies frame and supervise *ijarah* and IMBT, the study gains insight into the practical limitations, compliance requirements, and operational challenges that accompany the implementation of these financing models.

To complement theoretical and regulatory insights, the study also reviews empirical findings from previous research that focuses on MSME financing and asset-based funding. These works shed light on how leasing affects business productivity, asset ownership, and capital accessibility. They also help identify common obstacles faced by MSMEs, such as limited collateral, insufficient credit history, and difficulties in obtaining conventional financing—issues that Islamic leasing aims to address.

The collected data were analyzed using content analysis techniques. This process involves reading and interpreting literature to identify recurring concepts, arguments, and findings relevant to Islamic leasing. The analysis is carried out by synthesizing information, comparing perspectives from different authors, and grouping emerging themes into broader categories such as the effectiveness of leasing mechanisms, the strategic role of *ijarah* and IMBT in MSME development, and the operational challenges encountered in practice. Through this approach, the study develops a comprehensive understanding of how Islamic leasing functions both

theoretically and practically, and how it contributes to improving MSME access to productive assets.

Overall, the combination of diverse literature sources and systematic content analysis allows this research to present a holistic discussion of Islamic leasing. The method ensures that the conclusions drawn are grounded in reliable academic references and that the discussion reflects both conceptual clarity and practical relevance.

RESULTS AND DISCUSSION

1. The Position of Islamic Leasing as an Alternative Financing for MSMEs

Islamic leasing occupies an increasingly strategic role within the broader financing landscape for Micro, Small, and Medium Enterprises (MSMEs). Unlike conventional credit schemes that focus on disbursing cash and requiring borrowers to use the funds responsibly, Islamic leasing emphasizes the provision of tangible productive assets. This distinction is highly relevant for MSMEs in Indonesia, many of which face persistent barriers in meeting conventional financing requirements such as collateral, creditworthiness standards, and formal financial documentation. As stated by Kasmir (2016), these administrative and structural hurdles often prevent MSMEs from accessing bank loans, even when they have viable business operations and clear market opportunities.

Through Islamic leasing mechanisms, leasing institutions directly procure and provide the equipment or productive assets needed by MSMEs. Instead of repaying borrowed funds, MSMEs pay rental fees that are adjusted to their business capacity and structured in a predictable manner. This arrangement reduces the financial burden associated with large upfront investments and avoids the need for MSMEs to provide additional collateral, as the leased asset itself serves as the guarantee throughout the contract period. This model becomes especially advantageous for enterprises in early or growth stages, where financial liquidity is often limited but operational needs are high.

Furthermore, Islamic leasing enhances MSME competitiveness by allowing them to acquire modern tools, machinery, or vehicles without waiting to accumulate capital through savings. This accelerates business expansion and productivity improvements. MSMEs can immediately utilize the leased assets to increase production volume, improve service quality, and expand market coverage. In this sense, leasing not only serves as a financing alternative but also functions as a catalyst for technological adoption and operational efficiency.

From a macroeconomic perspective, the availability of Islamic leasing as an alternative financing channel also diversifies the financial ecosystem. It reduces the dominance of conventional lending models and introduces more inclusive financial mechanisms tailored to the unique conditions of MSMEs. For Islamic financial institutions, leasing offers a relatively safer mode of financing because the underlying asset remains under their ownership until the end of the contract. For MSMEs, it provides a structured, transparent, and asset-focused financing access that aligns with their operational realities. Thus, Islamic leasing emerges as a highly adaptive and practical solution in areas where gaps in MSME financing persist.

2. Effectiveness of the Ijarah Contract in Providing Productive Assets

The *ijarah* contract demonstrates significant effectiveness in enabling MSMEs to access productive assets without transferring ownership. As a leasing arrangement rooted in Islamic principles, *ijarah* allows MSMEs to utilize equipment or facilities for a specified period in exchange for predetermined rental payments. These payments are fixed and agreed upon at the start of the contract, giving MSMEs greater certainty in managing their financial obligations. According to Hasan (2014), this cost predictability is crucial for MSMEs that typically operate with tight and fluctuating cash flows, enabling them to plan expenses more accurately and avoid unexpected financial strain.

One of the defining strengths of the *ijarah* scheme lies in its risk allocation structure. Under this contract, the responsibility for major asset maintenance and damages falls on the asset owner namely, the leasing institution while the MSME, as the lessee, is accountable only for minor operational maintenance. This arrangement significantly reduces the financial risks borne by MSMEs, especially when compared to conventional financing where most operational and damage-related risks are transferred to the debtor. Ayub (2007) emphasizes that this proportional distribution of risks aligns with Islamic finance principles that promote fairness and discourage the imposition of excessive burden on one party.

The flexibility offered by *ijarah* makes it highly suitable for a wide range of business sectors. Industries that require immediate access to tools and equipment such as food processing, manufacturing, retail trading, agriculture, transportation, and small-scale services can benefit greatly from the quick asset availability provided through this contract. Instead of waiting for capital accumulation or struggling to meet collateral requirements, MSMEs can operationalize new machinery or equipment immediately after the leasing agreement is finalized. This direct access to productive resources enhances business continuity and allows MSMEs to respond more effectively to market demands.

Moreover, the structure of *ijarah* ensures that MSMEs can upgrade or replace assets more easily at the end of the contract period. If new technological developments require updated equipment, MSMEs can enter into new agreements without being tied down to long-term ownership commitments. Thus, *ijarah* not only supports initial business growth but also contributes to ongoing operational flexibility and competitiveness.

Overall, the *ijarah* contract is effective because it bridges the gap between MSME needs and their financial limitations. By combining predictable payment structures, fair risk distribution, and direct asset access, *ijarah* provides a practical and inclusive financing alternative that fosters productivity improvement, operational expansion, and sustainable business development.

3. The Role of IMBT in Strengthening MSME Asset Ownership

IMBT provides an option for asset ownership at the end of the lease through a gift or sale mechanism. For MSMEs, asset ownership acts as an indicator of business maturity and opens expansion opportunities. Sari (2020) shows that MSMEs using IMBT generally experience more stable business growth compared to those who only rent without ownership.

The advantages of IMBT include:

- Opportunity for ownership without large initial capital,

- Gradual payments based on ability,
- Increased business value due to additional fixed assets,
- Stronger motivation for asset maintenance.

This scheme becomes a long-term solution and is highly relevant for MSMEs seeking to build solid business structures.

4. Impact of Islamic Leasing on MSME Capital Access and Productivity

a. Capital Access Without Additional Collateral

Islamic leasing offers easier access to capital because no additional collateral is required beyond the leased asset itself. Since many MSMEs lack assets for collateral, this scheme becomes highly relevant. The leased asset serving as collateral simplifies the verification process and reduces the burden on small businesses just starting out. According to Kasmir (2016), many MSMEs fail to access bank financing due to the lack of collateral, making Islamic leasing a more inclusive alternative.

Leasing institutions also focus more on business feasibility and asset utility rather than the debtor's wealth, reducing administrative barriers for MSMEs.

b. Payment Structure Supporting Cash Flow

One key advantage of Islamic leasing is the predictable and fixed rental (ujrah) payments agreed upon at the start of the contract. This transparency helps MSMEs plan their cash flow more effectively. The lease tenure can also be adjusted based on business conditions, offering additional flexibility. Fixed payments minimize the risk of fluctuating financial costs, unlike conventional financing affected by interest rate changes.

This system is especially important for MSMEs with limited and unstable cash flow.

c. Increased Production Capacity

Access to modern assets through Islamic leasing enhances MSME production capacity, output quality, and operational efficiency. Many MSMEs currently suffer from low productivity due to outdated equipment. By obtaining new equipment through ijarah or IMBT, they can increase both production volume and quality without needing large capital upfront. Yusoff (2018) found that MSMEs using Islamic leasing experienced productivity increases within 1–2 years.

This improvement helps MSMEs become more competitive and supports long-term business expansion.

d. Reduced Business Failure Risk

Islamic leasing offers lower risk compared to debt-based financing. Because the asset remains owned by the leasing institution during the contract period, MSMEs are not burdened with long-term debt obligations if business performance declines. If the business fails, the asset can be returned with minimal loss, unlike conventional loans that require repayment regardless of performance.

e. Added Value Through Business Assistance

Some Islamic leasing institutions provide additional support such as asset usage training, maintenance guidance, and basic operational management. This mentoring ensures optimal use of the leased assets and reduces the risk of damage. According to Rivai (2010), Islamic financial institutions play a role not only as financiers but also as partners providing asset

management education.

5. Challenges in Implementing Islamic Leasing in Indonesia

a. Low Sharia Financial Literacy

Many MSME owners are not familiar with *ijarah*, IMBT, or the differences between Islamic leasing and conventional credit (Saad, 2012). Limited understanding leads to hesitation in using Islamic leasing even when it may be more suitable.

b. Perception of High Rental Costs

Many MSMEs perceive Islamic leasing fees as expensive compared to conventional credit installments. This misunderstanding occurs because they often compare only the monthly nominal payments rather than assessing the overall cost structure.

c. Limited Number of Islamic Leasing Companies

The number of Islamic leasing institutions in Indonesia remains small, with most leasing companies still operating conventionally (Khan, 2013). As a result, access to Islamic leasing is uneven, especially outside major urban areas.

d. Lack of Innovative Leasing Products

Current Islamic leasing products remain relatively standard and less flexible for MSMEs with seasonal or fluctuating income patterns.

e. Strict Business Feasibility Assessments

Because assets remain the property of the lessor, the assessment process tends to be strict, which can discourage some MSMEs.

CONCLUSION

Islamic leasing, through *ijarah* and IMBT contracts, is an effective instrument to enhance MSME capital access. Its main strengths include the absence of additional collateral requirements, clear payment structures, and opportunities for long-term asset ownership. Islamic leasing also significantly increases MSME productivity because the assets can be used immediately for business operations.

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