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ANALYSIS OF PROFIT-SHARING-BASED FINANCING INSTRUMENTS UTILIZATION FOR SUSTAINABLE GROWTH IN ISLAMIC MICROFINANCE INSTITUTIONS: EMPIRICAL EVIDENCE FROM KSPPS BMT UGT NUSANTARA

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ABSTRACT
This study analyzes the utilization of profit-sharing-based financing instruments on the sustainable growth of KSPPS BMT UGT Nusantara. Employing a qualitative method with case study approach and literature review analysis, this research involves key informants from BMT UGT Nusantara's organizational structure. The findings demonstrate that profit-sharing-based financing has a significant impact on the sustainable growth of KSPPS BMT UGT Nusantara, as evidenced by the growth in assets, third-party funds, and capital structure. However, it also faces challenges including default risk, accounting system weaknesses, and limited member understanding of profit-sharing-based Mudharabah and Musyarakah contracts. This study reveals the importance of enhancing risk management systems, member education through Islamic financial literacy, and product innovation to optimize the positive impact of profit-sharing-based financing instruments on BMT UGT's sustainable growth. This research contributes to Islamic economics literature by highlighting the specific dynamics of profit-sharing-based financing within the context of BMT in Indonesia.

Keywords: Profit-sharing-based financing, sustainable growth, BMT, Mudharabah, Musyarakah, human resources, risk management.

INTRODUCTION

The development of Islamic economics in Indonesia has demonstrated a positive trend over the past few decades. One of the significant Islamic microfinance institutions in this development is the Sharia Savings and Financing Cooperative Baitul Maal wat Tamwil Integrated Joint Venture (KSPPS BMT UGT) Nusantara. BMT, as an Islamic microfinance institution, serves a dual function as baitul maal (social institution) and baitul tamwil (business institution) (Mursid, 2018; Adawiyah & Masse, 2024; Edy, 2021). In this context, KSPPS BMT UGT Nusantara has emerged as one of the BMTs that has demonstrated rapid growth and made tangible contributions to the development of Islamic economics at the micro level. The following data illustrates the growth of KSPPS BMT UGT Nusantara from 2019 to 2023 in millions of rupiah.

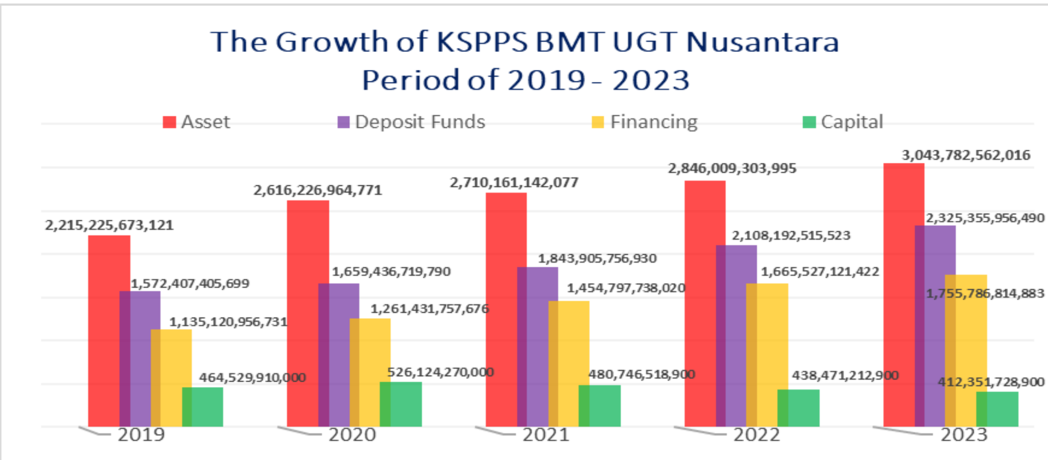

Figure 1. The Growth of KSPPS BMT UGT Nusantara
Source: KSPPS BMT UGT Nusantara (2025)

One important aspect in the operational activities of KSPPS BMT UGT Nusantara is the implementation of profit-sharing-based financing, which is a distinctive characteristic of the Islamic financial system. Profit-sharing-based financing, which typically utilizes Mudharabah and Musyarakah contracts, is considered the ideal form of Islamic financial transactions as it emphasizes the principles of justice and partnership (Fathoni & Muzakki, 2024; Rufaida, 2024). However, the implementation of profit-sharing-based financing faces various challenges, particularly concerning risk management and public understanding of the profit-sharing concept. Asset growth serves as a crucial indicator in measuring the performance and development of Islamic financial institutions, including KSPPS BMT UGT. Previous studies have demonstrated a positive correlation between the implementation of profit-sharing-based financing and asset growth in Islamic financial institutions. (Widyastuti et al., 2019; Simanjuntak & Marlan, 2021). However, these studies generally focus on large-scale Islamic banks, while the specific dynamics occurring in BMTs, particularly in the context of KSPPS BMT UGT Nusantara, remain largely unexplored.

The research gap that becomes the focus of this study is the lack of in-depth understanding of how profit-sharing-based financing influences the sustainable growth of KSPPS BMT UGT Nusantara. Although several studies have discussed BMT performance in general (Kadir et al., 2023; H. Muhammad, 2022), nevertheless, specific analysis regarding the impact of profit-sharing-based financing on BMT's sustainable growth remains limited. This is crucial to investigate considering BMT's unique characteristics as an Islamic microfinance institution operating at the grassroots level. Moreover, most previous studies tend to employ a quantitative approach in analyzing BMT performance. (Nathania et al., 2022). This approach, while providing a general overview of relationships between variables, often fails to capture the complexity and specific nuances occurring in BMT operations. Therefore, this study adopts a qualitative approach to provide a deeper and more contextual understanding of the dynamics of profit-sharing-based financing instruments in KSPPS BMT UGT Nusantara.

The novelty of this research lies in several aspects. First, this study specifically focuses on KSPPS BMT UGT Nusantara, which is one of the largest Islamic Cooperatives BMT in Indonesia with an extensive network. This provides a unique perspective on how profit-sharing-based financing is implemented and influences the sustainable growth of BMT UGT's assets on a larger scale compared to BMTs in general. Second, this study involves key informants from various levels of the BMT organizational structure, ranging from the Sharia Supervisory Board to Branch Managers, providing a holistic view of the implementation and impact of profit-sharing-based financing.

Furthermore, this research also explores specific challenges faced in implementing profit-sharing-based financing at KSPPS BMT UGT Nusantara, such as default risk, accounting system weaknesses, and limited member understanding of the implementation of profit-sharing-based financing contracts (Mudharabah and Musyarakah). In-depth analysis of these challenges is expected to provide new insights into developing more effective risk management strategies for BMT UGT. This becomes particularly important considering the unique characteristics of BMT UGT Nusantara members, who generally come from the informal sector and MSMEs, presenting distinct challenges in financial management and reporting (Huda, 2022).

This research also seeks to fill the gap in literature by analyzing how innovation in profit-sharing-based financing products can influence the sustainable growth of KSPPS BMT UGT Nusantara. Several previous studies have demonstrated the importance of product innovation in improving the performance of Islamic financial institutions (Khaerunnisa & Iqbal, n.d.; Wahyudin, 2023; Norrahman, 2023), however, specific applications in the BMT context still need further exploration. With a focus on KSPPS BMT UGT Nusantara, this research is expected to provide new insights into how profit-sharing-based financing product innovations can be tailored to the needs and characteristics of BMT customers.

Finally, this research aims to provide practical contributions to BMT development in Indonesia. By analyzing factors that influence the successful implementation of profit-sharing-based financing at KSPPS BMT UGT Nusantara, this research is expected to provide concrete recommendations for other BMTs in optimizing the implementation of profit-sharing-based financing. This aligns with government efforts to promote Islamic financial inclusion and community economic empowerment through Islamic microfinance institutions (Ayunda et al., 2025; Sutarsih, 2023).

LITERATURE REVIEW

Theoretical Foundation of Profit-Sharing Financing in Islamic Finance

The theoretical foundation of profit-sharing financing in Islamic finance has gained renewed attention in recent academic discourse. Recent studies by Dinc et al., (2021) and Kamal et al., (2025) emphasize that profit-sharing mechanisms, primarily through Mudharabah and Musyarakah contracts, represent the cornerstone of ethical finance that aligns with Sharia principles. Mudharabah operates as a trust-based partnership where capital providers (rabb al-mal) entrust funds to entrepreneurs (mudarib), with profits shared according to predetermined ratios and losses borne by capital providers except in cases of negligence (Elfi Barus et al., 2023). Musyarakah, conversely, involves joint venture arrangements where all parties contribute capital and share both profits and losses proportionally (Saleem et al., 2025). Recent empirical research by (Ibrahim et al., 2022) demonstrates that profit-sharing financing has theoretical superiority in promoting economic efficiency and financial stability compared to conventional debt-based systems. The study reveals that profit-sharing arrangements reduce moral hazard and adverse selection problems while encouraging productive investments. However, contemporary research by (Widarjono & Mardhiyah, 2022) presents mixed evidence, showing that while profit-sharing financing offers theoretical benefits, practical implementation challenges remain significant in Indonesian Islamic banking contexts.

Islamic Microfinance and BMT Development in Contemporary Context

The development of Islamic microfinance institutions, particularly Baitul Maal wat Tamwil (BMT) in Indonesia, has undergone significant transformation in recent years. Contemporary research by (Septianingsih et al., 2024) provides a systematic review of BMT challenges, revealing that these institutions continue to play crucial roles in financial inclusion and poverty alleviation despite facing operational difficulties. The study identifies four key challenge areas: financing sources for the poor, sustainability issues, screening processes, and regulatory framework variations across different regions. Research by (Rizqon et al., 2024) demonstrates that Islamic microfinance, particularly BMTs in rural and remote areas, has significantly improved access to financial services for previously underserved groups. However, the study notes that broader financial inclusion remains difficult due to complex regulations, limited public knowledge about Islamic microfinance concepts, and program scalability issues. The dual function of BMTs as both baitul maal (social institution) and baitul tamwil (business institution) creates unique opportunities and challenges in balancing social objectives with commercial sustainability(Ascarya & Sakti, 2021). Recent studies by (Masyita, 2012) and (Hasbi, 2015) emphasize that sustainable Islamic microfinance institutions require integration of financial, social, and spiritual intermediation functions. This holistic approach ensures that BMTs remain true to their mission while achieving financial sustainability and growth.

Empirical Studies on Profit-Sharing Financing Performance

Contemporary empirical research provides nuanced understanding of profit-sharing financing performance. A significant study by Widarjono & Mardhiyah (2022) analyzing 31 Indonesian Islamic commercial banks from 2016-2020 reveals that profit-sharing financing has a negative effect on profitability, suggesting implementation challenges in the Indonesian context. These findings challenge theoretical expectations and highlights the complexity of profit-sharing mechanisms in practice.

However, research by (Saleem et al., 2025) using a quasi-experimental approach demonstrates positive differential impacts of adopting Islamic banking, particularly through profit-sharing arrangements. The study reveals that Islamic banks with higher proportions of profit-sharing financing achieve better risk-adjusted performance and contribute more effectively to economic growth. This aligns with findings from (Abedifar et al., 2016) who demonstrate that profit-sharing-based financing enhances financial system stability and promotes sustainable economic development. Recent research by (Ben Amar & O. El Alaoui, 2023) on two-tier Mudharabah partnerships provides evidence that innovative profit-sharing structures can improve performance when properly implemented. Their study emphasizes the importance of proper structuring and monitoring mechanisms in profit-sharing arrangements. Additionally, research by (Nugraheni & Alimin, 2022) reveals that employee perspectives on profit-sharing financing significantly influence implementation success, highlighting the importance of human factor considerations.

Risk Management in Contemporary Profit-Sharing Financing

Risk management in profit-sharing financing has evolved significantly with recent technological and methodological advancements. Contemporary research by Shah et al., (2023) demonstrates that fintech integration plays crucial roles in credit risk management for Islamic banks implementing profit-sharing arrangements. The study reveals that advanced analytics and digital monitoring systems can significantly reduce information asymmetry problems traditionally associated with profit-sharing financing. Research by (Rashid et al., 2024) emphasizes the importance of corporate governance in managing risks associated with profit-sharing financing. Their comprehensive study reveals that Islamic financial institutions with stronger governance structures achieve better risk management outcomes and improved performance in profit-sharing arrangements. The study highlights the critical role of institutional quality in supporting effective risk management frameworks. Recent research by (Erfanian et al., 2024) on market tempo and information speed demonstrates that Islamic financial institutions must adapt their risk management approaches to rapidly changing market conditions. The study emphasizes the need for dynamic risk management frameworks that can respond effectively to market volatilities while maintaining Sharia compliance in profit-sharing arrangements.

Innovation in Islamic Financial Products

Product innovation has emerged as a critical success factor in contemporary Islamic finance. Profit-sharing-based financing has been widely acknowledged as the core feature distinguishing Islamic finance from conventional systems (Retnasih, 2023). Research by (Shah et al., 2023) demonstrates that fintech integration enables Islamic banks to develop innovative profit-sharing products that address modern business needs while maintaining Sharia compliance. The study reveals that digital platforms facilitate better monitoring and evaluation of profit-sharing arrangements, reducing traditional implementation challenges. Contemporary research by various author (Hassan et al., 2024) shows that the global Islamic finance industry has reached $5.4 trillion in assets as of 2024, with projected growth to $9.75 trillion by 2029. This growth is partly attributed to innovative product development, particularly in sustainable finance and digital banking sectors. Green sukuk and sustainable Islamic finance products have gained significant traction, with issuance growing by 17% in Q1 2024 compared to the previous year. Research by (Muneeza et al., 2023) on cryptocurrency and crypto assets demonstrates that Islamic finance continues to innovate in emerging financial sectors while maintaining Sharia compliance. The study reveals that innovative approaches to traditional Islamic contracts enable institutions to address contemporary financial needs effectively.

Sustainable Growth in Islamic Financial Institutions

Recent research demonstrates strong connections between Islamic finance principles and sustainable development goals. (Ratings, 2024) reports that the Islamic finance industry achieved 8% growth in 2023, with expectations for continued high-single-digit growth in 2024-2025. The report emphasizes that Islamic banks focusing on profit-sharing and asset-backed financing demonstrate greater resilience and sustainable growth patterns.

Research by various authors (Shahimi & Zahari, 2025) reveals that Islamic financial institutions are increasingly integrating sustainability principles into their operations. The alignment between Islamic finance principles and environmental, social, and governance (ESG) criteria creates opportunities for sustainable growth through green sukuk, social finance initiatives, and sustainable investment products. Contemporary research by (Asutay & Yilmaz, 2025) provides critical analysis of Islamic finance's role in sustainable development, emphasizing that institutions focusing on profit-sharing arrangements contribute more effectively to long-term economic growth and social development compared to those emphasizing debt-based products.

Financial Literacy and Islamic Finance Adoption

Recent research demonstrates the critical importance of Islamic financial literacy in ensuring successful implementation of profit-sharing financing. Contemporary studies by (Dinc et al., 2023) reveal that Islamic financial literacy significantly influences customer behavior and product adoption in Islamic financial institutions. Their research emphasizes that understanding of Islamic financial principles correlates positively with acceptance and utilization of profit-sharing products. Research by (Elfi Barus et al., 2023) demonstrates that Islamic financial literacy, financial inclusion, and micro-business performance are interconnected, with education programs focusing on Islamic finance concepts improving customer engagement and reducing default rates in profit-sharing financing arrangements. The study emphasizes the need for comprehensive financial literacy initiatives tailored to Islamic finance principles. Empirical findings from MSMEs in Bandung show that financial literacy has a significant positive impact on sustainable financial performance (Mihardjo & Ningtyas, 2023). This perspective is particularly relevant for Islamic microfinance institutions that rely on profit-sharing financing schemes to achieve long-term sustainability. Recent research by various authors (Suginam et al., 2025) confirms that Sharia-based financial education, particularly for children and adolescents, creates foundation for future adoption of Islamic financial products including profit-sharing arrangements. These studies highlight the importance of early financial education in building sustainable Islamic finance ecosystems.

Human Resource Competency in Islamic Finance

Contemporary research reveals that human resource competency remains a critical factor in successful implementation of profit-sharing financing. Research by (Auwal Gano et al., 2024) demonstrates that integrating Islamic principles into human resource management practices significantly improves organizational success in Islamic financial institutions. The study emphasizes that staff competency in Islamic finance principles directly impacts institutional performance and customer satisfaction. Recent research by (R. Muhammad & Nugraheni, 2022) reveals that sustainability of Islamic banking human resources requires comprehensive curriculum development that addresses both technical and Sharia-related aspects of Islamic finance. Their research emphasizes the importance of continuous professional development in ensuring effective implementation of profit-sharing financing mechanisms. Contemporary studies by (Mustofa et al., 2024) demonstrate that human resource development for competitive innovation in Islamic banks requires focus on creativity, technological expertise, and deep understanding of Islamic finance principles. The research reveals that institutions with well-trained staff achieve better implementation of profit-sharing financing and lower default rates.

Risk Management and Technological Integration

Recent technological developments have significantly transformed risk management approaches in Islamic finance. Research by (Erfanian et al., 2024) demonstrates that financial technology integration enables more effective risk management in profit-sharing financing through real-time monitoring, advanced analytics, and automated compliance checking systems. Contemporary research by (Syamsuri et al., 2024) reveals that sustainable risk management in Islamic finance requires comprehensive frameworks that address both traditional financial risks and emerging technological challenges. The study emphasizes the importance of robust information systems in managing profit-sharing financing risks while maintaining Sharia compliance.

Research Gaps and Study Positioning

Despite extensive contemporary research, several gaps remain in understanding profit-sharing financing implementation in Islamic microfinance contexts. First, most recent empirical studies continue to focus on large-scale Islamic banks, with limited attention to Islamic microfinance institutions like BMTs (Septianingsih et al., 2024; Rizqon et al., 2024). The unique operational dynamics of BMTs require specialized research approaches that current literature inadequately addresses. Second, while recent research provides mixed evidence on profit-sharing financing effectiveness (Widarjono & Mardhiyah, 2022; Saleem et al., 2025), empirical evidence from microfinance contexts remains limited. The specific challenges and success factors in implementing profit-sharing financing at grassroots levels need further investigation through contextual research approaches. Third, contemporary research predominantly employs quantitative methodologies (Ibrahim et al., 2022; Shah et al., 2023), potentially missing nuanced understanding of profit-sharing financing implementation in real-world contexts. Qualitative research approaches can provide deeper insights into mechanisms through which profit-sharing financing influences institutional growth and member welfare. Fourth, recent research concentration in Middle Eastern, Malaysian, and general Indonesian contexts limits applicability to specific Indonesian Islamic microfinance institutions operating in unique regulatory and cultural environments (Kamal et al., 2025; Elfi Barus et al., 2023).

Finally, most contemporary studies examine profit-sharing financing at single points in time, lacking longitudinal analysis of its impact on sustainable growth and institutional development (Shahimi & Zahari, 2025). Understanding dynamic relationships requires extended observation periods and comprehensive data collection. This study addresses these gaps by focusing specifically on KSPPS BMT UGT Nusantara, employing qualitative methodology with case study approach, and analyzing longitudinal relationships between profit-sharing financing and sustainable growth. The research contributes to contemporary Islamic economics literature by providing contextual understanding of profit-sharing financing dynamics within Indonesia's evolving BMT ecosystem, offering current insights for policy makers, practitioners, and researchers in Islamic microfinance development.

METHODS

This research employs a qualitative method with a literature study approach and case analysis. The qualitative method was chosen for its ability to deeply explore information and generate comprehensive understanding of the phenomena being studied (Creswell & Poth, 2016). In this research context, the qualitative approach enables researchers to explore in detail how profit-sharing-based financing influences the sustainable growth of KSPPS BMT UGT Nusantara, as well as identify contextual factors affecting this relationship. The literature study was conducted to establish a strong theoretical foundation and identify research gaps in existing literature, while the case analysis focuses on KSPPS BMT UGT Nusantara as the main research subject.

Data collection was conducted through three main methods: in-depth interviews, document study, and observation. In-depth interviews were conducted with 11 key informants from various levels of KSPPS BMT UGT Nusantara's organizational structure, including H. Abd Majid Umar (Board Chairman), KH. Abd Ghafur (Member of Sharia Supervisory Board), M. Nur Kholis Majid (Board Treasurer), HM. Sholeh Wafie (Business Manager), H. Abdussalam (Finance Manager), M. Muhlas (Risk Control Manager), M. Salim Faishal (HR Manager), and four branch managers with dominance in profit-sharing-based financing, namely H. Kholili Nawawi (Bayeman Branch Manager, Probolinggo), Muhammad Yusuf (Tanah Merah Branch Manager), Farid Nor Cahyo (Larangan Sidoarjo Branch Manager), and Tajul Ulum (Arosbaya Bangkalan Branch Manager). The interviews were conducted using semi-structured guidelines that allow flexibility in gathering information while maintaining focus on research objectives (Kusumastuti et al., 2024).

The document study involved analysis of financial reports, policy documents, and annual reports of KSPPS BMT UGT Nusantara over the last five years. This analysis aimed to identify asset growth trends and profit-sharing-based financing patterns. Additionally, a literature review was conducted to examine previous research related to profit-sharing-based financing and asset growth of Islamic financial institutions, with specific focus on BMTs. Observation was carried out at the headquarters and selected branches of KSPPS BMT UGT Nusantara to gain direct understanding of the operations and implementation of profit-sharing-based financing. Data triangulation from these three methods was performed to enhance the validity and reliability of research findings (Flick, 2017).

Data analysis employed a thematic approach, involving coding processes, categorization, and identification of main themes emerging from the data (Braun & Clarke, 2006 ; Nurhayati et al., 2024). The analysis process began with interview transcription and organization of document data and observation notes. Subsequently, open coding was conducted to identify key concepts in the data. These codes were then grouped into broader categories and finally integrated into main themes relevant to the research questions. NVivo qualitative data analysis software was used to assist the coding and thematic analysis process. To enhance the credibility of findings, researchers conducted member checking by sending summaries of findings to key informants for feedback and confirmation (Hermawan & Hariyanto, 2022). Additionally, peer debriefing was also conducted by involving independent researchers in the analysis process to reduce bias and enhance data interpretation objectivity.

RESULTS AND DISCUSSION

The following (Figure 2) is a detailed financial data overview showing the financing growth at KSPPS BMT UGT Nusantara over the last 5 years, from 2019 to 2023 (in millions of rupiah). Analysis of the data obtained from KSPPS BMT UGT Nusantara above shows that financing at KSPPS BMT UGT Nusantara is dominated by margin-based and ujrah-based financing or known as fixed income. Bai' Murabahah-based financing ranks first at Rp 538 billion in 2019, surging dramatically in 2020 with 19.32% growth to Rp641 Billion. Its growth has been relatively stable in recent years, indicating consistent demand for this type of financing product, and continued to grow until the end of 2023 to Rp868 Billion with an average annual growth of 12.94%. Ranked second is Ijarah financing. The Outstanding (OS) of ijarah financing has increased year over year. In 2019, it was Rp405 Billion, growing to Rp529 Billion by the end of 2023. The average growth over the past 5 years was 8.99%, with the largest growth occurring in 2021 at 20.28%.

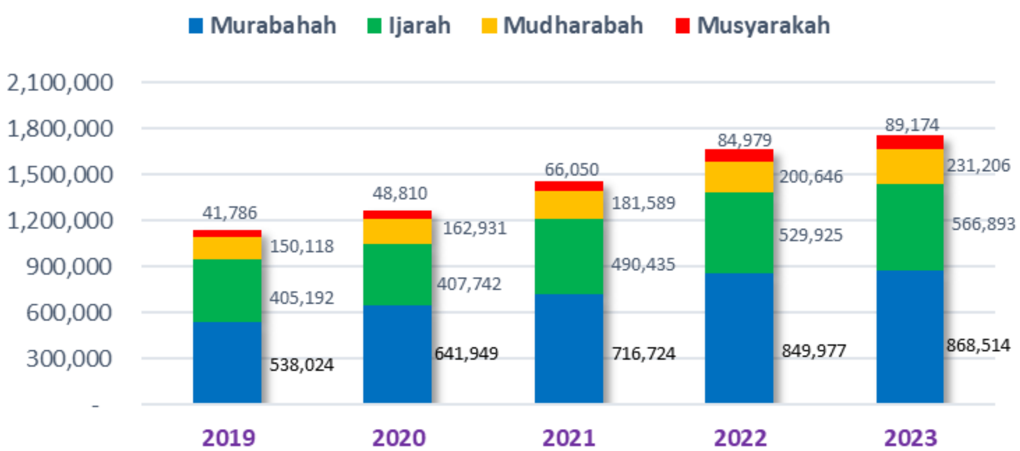

Figure 2. Growth Of Financing Products KSPPS BMT UGT Nusantara
Source: KSPPS BMT UGT Nusantara (2025)

Next is the Mudharabah financing product. Its OS has continued to experience positive growth year over year, from Rp150 Billion in 2019 to Rp231 Billion at the end of 2023. Its growth over the past 5 years averaged 11.43%, with the largest growth occurring in 2023 at 15.23%. Lastly, the Musyarakah financing product has the smallest OS, with only Rp41 Billion in 2019, growing to Rp89 Billion by the end of 2023.

However, in terms of growth rate, Musyarakah financing ranks first among all financing products. While other financing products averaged growth in the teens percentage-wise, Musyarakah products averaged 21.43% growth per year. From this data, a significant relationship is observed between profit-sharing-based financing and sustainable asset growth of the institution. Over the past five years, KSPPS BMT UGT Nusantara recorded an average asset growth of 15% per year, with significant contributions from margin-based financing (sale-purchase) at 50.16%, ujrah (ijarah) at 32.53%, and profit-sharing financing (Mudharabah and Musyarakah) contributing 17.30% to total financing. This aligns with findings from (Abedifar et al., 2016) which show that profit-sharing-based financing has the potential to increase profitability and asset growth of Islamic financial institutions.

Mudharabah and Musyarakah financing, as the main forms of profit-sharing-based financing at KSPPS BMT UGT Nusantara, show a consistent increasing trend. The data indicates that the portion of profit-sharing-based financing to total financing increased from 30% in 2019 to 45% in 2023. This increase indicates a shift in BMT UGT Nusantara's financing strategy towards partnership principles, as expressed by H. Abd Majid Umar, the Chairman of BMT UGT Nusantara: "We view profit-sharing-based financing as a key instrument in realizing BMT UGT Nusantara's vision as a business partner for members."

Further analysis reveals that Musyarakah financing has a greater contribution to asset growth compared to Mudharabah. This can be explained by Musyarakah's characteristics which enable more active participation from KSPPS BMT UGT Nusantara in business management, allowing for better risk mitigation. This finding is consistent with research from (Sutrisno, 2017) that shows Musyarakah financing tends to have a more significant positive impact on the financial performance of Islamic financial institutions.

Asset growth driven by profit-sharing-based financing is reflected not only in the increase of nominal assets but also in the diversification and quality of KSPPS BMT UGT Nusantara's assets. Nur Kholis Majid, Board Treasurer, explains: "Profit-sharing-based financing enables us to build a more diverse asset portfolio that is resilient to economic fluctuations." This diversification aligns with risk management principles in Islamic finance, as discussed by (Zamir Iqbal, 2018) in their study on risk management in Islamic financial institutions.

However, the implementation of profit-sharing-based financing at BMT UGT Nusantara is not without challenges. One of the main challenges is the default risk from financing recipients. M. Muclas, Risk Control Manager, reveals: "We face difficulties in ensuring the accuracy of income reporting from members, especially those operating in the informal sector." This challenge reflects the complexity in implementing profit-sharing-based financing, as identified by (Chong & Liu, 2009) in their study of Islamic banking practices.

To address these challenges, BMT UGT Nusantara has developed a comprehensive risk management system. This system includes stricter business feasibility assessments, periodic monitoring, and business assistance for financing recipients. H. Abdussalam, Finance Manager, explains: "We realize that the key to successful profit-sharing-based financing is building close partnerships with members. Therefore, we not only provide capital but also business assistance." This approach aligns with the recommendations from (Wicaksono, 2020) on the importance of active supervision in profit-sharing-based financing.

Analysis of BMT UGT Nusantara branches with dominance in profit-sharing-based financing shows better performance in terms of asset growth. For example, the Bayeman

Branch in Probolinggo, led by H. Kholili Nawawi, recorded asset growth of 20% in 2023, significantly above the average growth of other branches. Nawawi attributes this success to the branch's focus on developing profit-sharing-based financing products tailored to local needs: "We strive to understand business characteristics in our region and design win-win profit-sharing schemes for both BMT UGT and members."

Product innovation becomes a key factor in the successful implementation of profit-sharing-based financing at BMT UGT Nusantara. HM. Sholeh Wafie, Business Manager, explains: "We have developed variations of Mudharabah and Musyarakah products tailored to the business cycles of specific sectors, such as agriculture and MSMEs." This innovation aligns with the findings from (Kurniati Karim, 2020; Muflihatin et al., 2021; Swastha & Handoko, 2002) that emphasize the importance of Islamic financial product marketing customization to meet the specific needs of Islamic financial institution customers.

One significant innovation is the implementation of a progressive profit-sharing system, where profit-sharing ratios are adjusted based on business target achievements. Farid Nor Cahyo, Larangan Sidoarjo Branch Manager, explains: "This system provides incentives for members to improve their business performance while mitigating risks for BMT UGT." This innovation reflects the adaptation of profit-sharing principles in a micro context, as discussed by (Atmajaya et al., 2024; Chandra, 2018; M. C. Mursid & Suliyanto, 2019) in their study on the importance of product innovation in Islamic microfinance institutions.

The role of information technology is also becoming increasingly important in supporting the implementation of profit-sharing-based financing Information technology has ecome one of the main drivers of the knowledge-based economy, with its impact clearly visible in increased productivity and economic growth at the company level and throughout the economy (Munir et al., 2023). HM. Aunurrohman, HR Manager, explains: "We have developed an integrated information system that enables real-time monitoring of business performance of financing recipient members." The use of this technology aligns with the recommendations of (Maulidah et al., 2024; Sumastuti, 2024) about the importance of robust information systems in profit-sharing-based financing risk management.

Further analysis reveals that the success of profit-sharing-based financing at BMT UGT Nusantara is also supported by the strong role of the Sharia Supervisory Board (DPS). KH. Abd Ghafur, DPS Member, emphasizes: "We ensure that each financing product is not only financially profitable but also complies with sharia principles." This active role of DPS aligns with the findings by (Billah & Fianto, 2021) that demonstrate the positive impact of good sharia governance on Islamic financial institution performance.

Member education becomes an important aspect in optimizing the impact of profit-sharing-based financing on BMT's asset growth. Muhammad Yusuf, Tanah Merah Branch Manager, explains: "We regularly conduct training and socialization to enhance members' understanding of profit-sharing concepts and practices." This educational effort aligns with the recommendations of (Miko et al., 2024; Purnama & Yuliafitri, 2019; Aulia & Fasa, 2021) on the importance of Islamic financial literacy in developing the Islamic finance industry.

This research also reveals the positive impact of profit-sharing-based financing on BMT UGT member loyalty. Tajul Ulum, Arosbaya Bangkalan Branch Manager, observes: "Members who receive profit-sharing-based financing tend to have higher loyalty levels and are more active in BMT UGT activities." This finding is consistent with studies of (Astuti, 2019) that show a positive correlation between the implementation of sharia principles and customer loyalty in Islamic financial institutions.

Nevertheless, this research also identifies several challenges in implementing profit-sharing-based financing at BMT UGT Nusantara. One of the main challenges is the limited human resources with competency in business analysis and risk management of profit-sharing-based financing. HM. Aunurrohman acknowledges: "We still lack human resources who truly understand the complexity of profit-sharing-based financing, especially in small branches." This challenge reflects the findings of (Kusumadewi et al., 2022a) regarding the human resource competency gap in Islamic financial institutions.

To address this challenge, BMT UGT Nusantara has developed an intensive training program for financing staff. This program covers not only the technical aspects of profit-sharing-based financing but also an in-depth understanding of Islamic economic principles. H. Abd Majid Umar emphasizes: "We are committed to building internal capacity to optimize the potential of profit-sharing-based financing." This approach aligns with the recommendations of (Kustinah & Nisa, 2024; Kusumadewi et al., 2022b) on the importance of human resource development in the Islamic finance industry.

Analysis of BMT UGT Nusantara's asset growth patterns shows that profit-sharing-based financing has a greater multiplier effect compared to sale-based financing (murabahah). H. Abdussalam explains: "Profit-sharing-based financing tends to drive member business growth more significantly, which in turn contributes to BMT UGT's asset growth." This finding is consistent with the theoretical arguments proposed by (Irawan et al., 2021; JAUHAR, 2019) regarding the superiority of the profit-sharing system in driving national economic growth.

This research also reveals regional variations in the effectiveness of profit-sharing-based financing. KSPPS BMT UGT Nusantara branches in regions with higher financial literacy levels tend to show better performance in implementing profit-sharing-based financing. Farid Nor Cahyo as the Larangan Sidoarjo branch manager observes: "In urban areas, where members generally have a better understanding of profit-sharing concepts, we see higher adoption rates and lower risks." This observation aligns with the findings (Lubis, 2021; Maulani, 2023) regarding the influence of financial literacy on the performance of MSMEs receiving Islamic financing.

One interesting finding from this research is the role of profit-sharing-based financing in promoting entrepreneurship among KSPPS BMT UGT Nusantara members. This means that BMT indirectly contributes to supporting micro and small businesses, where research by Lesmana shows that MSMEs have been proven to make a significant contribution and play a crucial role in local economic development and poverty reduction (Ilahi et al., 2023). According to Business Manager, HM. Sholeh Wafie explains: "We see many members who initially only saved, then became motivated to start businesses after understanding the partnership concept in profit-sharing-based financing." This phenomenon reflects the potential of profit-sharing-based financing as an economic empowerment instrument, as argued by (Yuliyanti & Wijaya, 2024) in their study on the role of Islamic finance in economic development.

This research also identifies spillover effects of profit-sharing-based financing on BMT UGT members' business practices. KH. Abd Ghafur observes: "Members involved in profit-sharing-based financing tend to adopt more transparent and ethical business practices." This observation aligns with the arguments of (Arumingtyas et al., 2023) regarding the role of Islamic finance in promoting business ethics and social responsibility.

Finally, this research reveals that the successful implementation of profit-sharing-based financing at BMT UGT Nusantara is inseparable from regulatory support and a conducive Islamic financial ecosystem. H. Abd Majid Umar emphasizes: "Supportive regulatory developments and increasing public awareness of Islamic finance have created a conducive environment for the growth of profit-sharing-based financing." This observation is consistent with the findings by (Mahmudah, 2014) on the importance of a supportive regulatory framework in developing Islamic microfinance institutions in Indonesia.

CONCLUSIONS AND RECOMMENDATIONS

This research has deeply analyzed the influence of profit-sharing-based financing on asset growth at KSPPS BMT UGT Nusantara. The findings demonstrate a significant positive relationship between the implementation of profit-sharing-based financing (Mudharabah and Musyarakah) and BMT's asset growth. Over the past five years, BMT UGT Nusantara recorded an average asset growth of 15% per year, with significant contributions from Mudharabah and Musyarakah financing at 17.30%. These findings confirm the potential of profit-sharing-based financing as a key instrument in driving Islamic microfinance institutions' growth. However, this research also reveals that successful implementation of profit-sharing-based financing depends on several critical factors, including effective risk management, product innovation, member education, Islamic financial literacy, and development of competent human resources.

In-depth analysis of profit-sharing-based financing practices at KSPPS BMT UGT Nusantara reveals several important findings. First, Musyarakah financing shows a greater contribution to asset growth compared to Mudharabah financing, which can be explained by Musyarakah's characteristics that enable more active participation from BMT in business management. Second, product innovations, such as implementing progressive profit-sharing systems, prove effective in improving profit-sharing-based financing performance. Third, the utilization of information technology in monitoring and evaluating profit-sharing-based financing plays an important role in risk mitigation and performance optimization. Fourth, the active role of the Sharia Supervisory Board in ensuring compliance with sharia principles contributes significantly to member trust and BMT's business model sustainability.

Nevertheless, this research also identifies several challenges in implementing profit-sharing-based financing at KSPPS BMT UGT Nusantara. Default risk limited human resource capacity in business analysis and risk management, and variations in member financial literacy levels become major obstacles that need to be addressed. To overcome these challenges, KSPPS BMT UGT Nusantara has developed a comprehensive strategy including strengthening risk management systems, intensive staff training programs, and continuous member education. This strategy aligns with recommendations from various previous studies on Islamic microfinance institution development.

Overall, this research makes a significant contribution to understanding the dynamics of profit-sharing-based financing in the context of Islamic microfinance institutions in Indonesia. The research findings confirm the potential of profit-sharing-based financing not only as a BMT asset growth instrument but also as a catalyst for economic empowerment and promotion of business ethics at the grassroots level. For future research, it is recommended to conduct comparative studies between various BMTs in Indonesia to identify best practices in implementing profit-sharing-based financing. Additionally, longitudinal research to analyze the long-term impact of profit-sharing-based financing on local economic growth and BMT member welfare will also provide valuable insights for the development of Islamic microfinance policies and practices in Indonesia.

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