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Determinants of MSME Financing in OJK-Listed Regional Development Banks: An Islamic Perspective on Interest Rate as a Moderating Variable

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Abstract: This study aims to analyze the influence of third-party funds, non-performing loans, return on assets, and capital adequacy ratio on MSME financing distribution with interest rates as a moderating variable at regional development banks (RDBs) registered with the OJK (Financial Services Authority of Indonesia) during the 2020–2024 period. The research uses 115 samples from a population of 23 companies, selected using purposive sampling. This study employs quantitative data obtained from published financial statements of the OJK for 2020-2024. The analytical methods used are multiple linear and moderated analyses (MRA), processed using SPSS software. The study shows that third-party funds, return on assets, and capital adequacy ratio positively and significantly affect MSME financing. In contrast, non-performing loans have no significant impact. Interest rates significantly moderate the relationships between third-party funds, non-performing loans, and capital adequacy ratios with MSME financing. Conversely, they do not exhibit moderation on the relationship between ROA and MSME financing.

Keywords: MSME financing, third-party funds, NPL, ROA, CAR, interest rate

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INTRODUCTION

Indonesia's economic development continues to progress, and this is marked by the increasing number of micro, small, and medium enterprises (MSMEs). MSMEs strategically contribute to expanding employment, increasing community income, and supporting national stability, with a proportion of 99% of total business units and absorbing 97% of the national workforce (OJK, 2024). MSMEs have also proven to be resilient in the face of crises, such as in 1997/1998 and 2008/2009, where around 96% remained resilient (LPPI & BI, 2015). Nevertheless, MSMEs face various obstacles,

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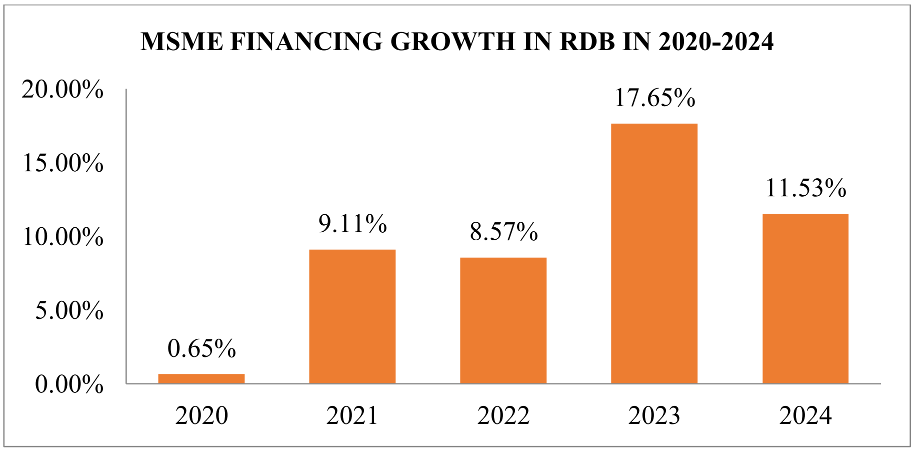
especially in access to financing, with around 60- 70% of businesses yet to gain access to bank credit (LPPI & BI, 2015).

The role of banks and the government is critical in supporting MSME financing. In this case, Regional Development Banks (BPDs) are expected to contribute to MSME lending as Law No. 20/2008 mandated. However, BPD's contribution is still relatively low. Until the end of 2022, MSME loans by BPD only amounted to Rp108.05 trillion out of a total of Rp1,457.12 trillion in national MSME loans (OJK, 2024). In addition, the data shows fluctuations in the growth of MSME loans by BPD from 2020 to 2024, reflecting inconsistencies in financing distribution performance.



Source: OJK, 2025 (Data processed by researchers)

Figure 1. MSME Financing Growth in RDB in 2020-2024

Based on information from the table, the overall average growth of lending to MSMEs by Regional Development Banks (RDB) shows fluctuations that vary from year to year. The occurrence of fluctuations and inconsistencies in MSME lending to regional development banks needs to be understood regarding the aspects that can impact credit growth.

From an Islamic economic perspective, Micro, Small, and Medium Enterprises (MSMEs) serve not only as economic drivers but also as instruments for realizing social justice (*al-‘adl*) and public welfare (*maslahah*), which are core objectives of *maqashid shariah* (Azmi et al., 2024). Islam emphasizes productive economic activities, trade, and empowerment of the real sector as pathways to achieving equitable development. Therefore, MSME development is not merely a matter of economic growth, but also a religious and ethical responsibility in Muslim-majority countries like Indonesia (Jannah et al., 2024). Consequently, although this research utilizes data from conventional Regional Development Banks, incorporating an Islamic perspective offers an ethical lens for understanding MSME financing and invites future exploration of alternative, inclusive financial approaches.

The distribution of MSME financing by RDB can be influenced by several internal banking factors, including third-party funds, non-performing loans (NPL), return on

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assets (ROA), and capital adequacy ratio (CAR), as well as external factors such as interest rates. Third-party funds are essential as they constitute the primary funding source for banks, although their effect on lending is still debated (Riyantowo et al., 2021). High NPLs can reduce the bank's capacity to extend credit (Darussalam & Wardoyo, 2018), although some studies state otherwise (Pramudyawardani & Hakim, 2024). ROA reflects bank profitability and affects the ability to provide credit (Gozali et al., 2023). Meanwhile, CAR describes the adequacy of bank capital to bear risk (Nurfajri & Mirati, 2024), but is not always significant in influencing credit (Gozali et al., 2023).

The benchmark interest rate (BI Rate) as a moderating variable is also important because it affects the cost of borrowing. Higher BI Rates can discourage the public from applying for credit or engaging in borrowing activities in loans and impact bank lending performance (Ratnasari & Soesatyo, 2016).

This study aims to examine and analyze the effect of third-party funds, non-performing loans (NPL), return on assets (ROA), and capital adequacy ratio (CAR) on MSME credit distribution, with interest rate as a moderating variable, at Regional Development Banks (BPDs) registered with the Financial Services Authority (OJK) during the 2020-2024 period. The study also seeks to address a research gap, as previous studies have primarily focused on the direct influence of internal banking factors on MSME financing, without considering the moderating role of interest rates. Furthermore, this study integrates an Islamic perspective by reflecting on the implications of *riba* (usury) and emphasizing the importance of justice and financial inclusion in MSME financing based on sharia principles.

LITERATURE REVIEW

Signaling Theory

Signaling theory was first proposed by Spence in 1973. Spence (1973: 356) says that a signal is information related to the company's condition sent by the owner of the information (owner) to investors or other external parties (receiver). Signal theory explains why companies want to provide information to external parties regarding financial statements. This desire is due to the information asymmetry between the company and external parties (Hapsari, 2022). Banks that have good financial ratios will be seen as a positive signal, which will increase public confidence to raise funds and channel their funds back in the form of credit (Stefanus et al., 2023).

Agency Theory

Agency theory is a concept that explains the relationship between the principal and the agent. The principal is the party that authorizes, while the agent is the party that receives the authority (Jensen & Meckling, 1976). Agency theory aims to solve agency problems because there are parties who will work together but have different goals (Hapsari, 2022: 29). In this study, agency theory describes banks or creditors as agents and the public as

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customers or debtors who act as principals. Where customers as debtors will provide the funds they have to the bank to be managed, so that the bank must pay attention to how these funds will be managed, especially in channeling these funds carefully and following existing regulations in order to increase mutual prosperity (Stefanus et al., 2023).

Islamic View on MSME Financing

Islamic finance emphasizes justice (*al-'adl*), public welfare (*maslahah*), and financial inclusion, aligning with the principles of *maqashid shariah* (preservation of religion, life, intellect, wealth, and lineage). MSME financing fits strongly within this framework, contributing to community empowerment and equitable economic distribution. Unlike conventional interest-based systems, which rely on fixed returns regardless of outcome, Islamic financing models such as *mudharabah* and *musyarakah* promote risk sharing and fairness between the capital provider and entrepreneur (Jannah et al., 2024). A recent study by Jannah et al. (2024) financing MSMEs under *maqashid*-based frameworks enhances both resilience and growth of micro-businesses in Indonesia. Furthermore, Safitri (2024) demonstrated that internal banking factors such as third-party funds and return on assets (ROA) significantly influence MSME financing in Islamic rural banks, showing similarities in variable relevance but differences in ethical and operational mechanisms.

Third-Party Funds on MSME Financing

Banks accumulate Third-Party Funds from society via demand deposits, savings, and term deposits, and allocate them for lending purposes, including to MSME actors. The higher the volume of third-party funds collected, the greater the bank's capacity to expand its credit distribution. (Khotimah & Atiningsih, 2018). Previous research by Riadi (2018), Kusumawati & Manda (2021), Khaddafi et al (2022), and others showed that Third-party funds positively influence MSME financing.
H1: Third-party funds affect MSME financing at RDBs registered with OJK during 2020-2024

Non-Performing Loan on MSME Financing

Non-performing loans (NPL) reflect the ratio of non-performing loans to total loans. A high NPL level can reduce banks' performance and confidence in lending. Conversely, low NPLs increase banks' ability to credit MSMEs (Hartini et al., 2023). Research such as Jacobs & Hukom (2020) and Ruslang et al. (2024) states that NPLs negatively affect MSME financing.
H2: Non-performing loans affect MSME financing at RDBs registered with OJK during 2020- 2024

Return On Assets on MSME Financing

ROA measures the bank's ability to administer resources strategically to achieve profitability. The higher the ROA, the more efficient the management of bank assets, which increases the capacity for lending to MSMEs (Safitri & Muslihat, 2021; Haryanto & Dewi, 2019). Previous research consistently shows that ROA exerts a beneficial impact on MSME financing.

H3: Return on assets affects MSME Financing at RDBs registered with OJK during 2020-2024

Capital Adequacy Ratio on MSME Financing

CAR is a metric to evaluate whether a bank has sufficient capital to cover potential risks. A high Capital Adequacy Ratio increases the stability and confidence of banks in lending, including to MSMEs (Qulby, 2023). Several studies, such as those by Puspitasari & Musaroh (2018) and Khaddafi et al. (2022), showed a positive effect of CAR on MSME lending.

H4: Capital adequacy ratio affects MSME financing at RDBs registered in OJK during 2020- 2024

Interest Rate Moderates the Effect of Third-Party Funds on MSME Financing

Interest rates moderate the relationship between Third-Party Funds and MSME lending. Low benchmark interest rates encourage an increase in customer deposits, giving banks more funds to distribute (Suarmanayasa, 2020).

H5: The interest rate can moderate the effect of third-party funds on MSME financing at RDBs registered with OJK for 2020-2024.

Interest Rate Moderates the Effect of Non-Performing Loans on MSME Financing

Interest rates can strengthen or weaken the effect of NPLs on credit. Even though NPLs are high, high interest rates allow banks to earn returns on the placement of funds, so they can still extend credit (Devi & Widiasmara, 2019).

H6: Interest rate can moderate between NPL and MSME financing in RDBs listed by OJK during 2020–2024

Interest Rate Moderates the Effect of Return on Assets on MSME Financing

High return on assets tends to increase lending, especially when low interest rates. Conversely, high interest rates may make banks more cautious despite high returns on assets, as the risk of default increases (Prihartini & Dana, 2018).

H7: Interest rate can moderate between return on asset and MSME financing in RDBs listed by OJK during the 2020–2024

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Interest Rate Moderates the Effect of Capital Adequacy Ratio on MSME Financing

Low interest rates strengthen the effect of CAR on MSME financing because borrowing costs are more affordable. However, despite maintaining a solid capital buffer in high-interest-rate conditions, banks exhibit caution in broadening their credit distribution. (Komaria & Diansyah, 2019).

H8: Interest rate can moderate between the capital adequacy ratio and MSME financing in RDBs listed by OJK during the 2020–2024

Conceptual Framework

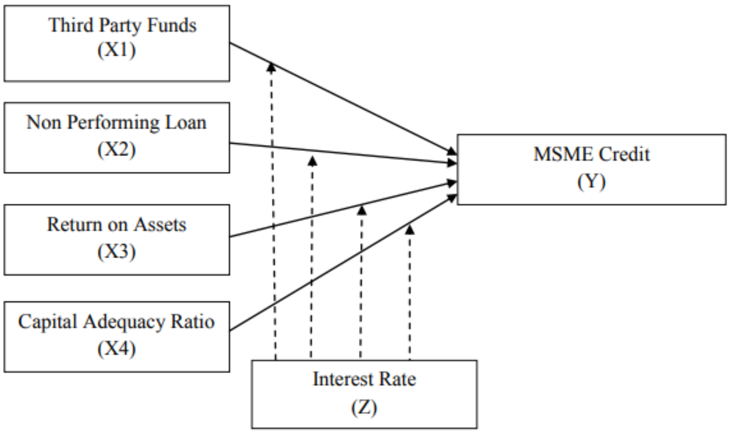

Figure 2. Conceptual Framework

METHOD

A quantitative method was applied in this research, utilizing data presented in numerical form for measurement and analysis. (Suliyanto, 2018: 20). The information utilized in this research is derived from secondary data, acquired through the documentation of the financial statements of the Regional Development Bank (RDB) found on the website of each company and the website www.ojk.co.id for the 2020-2024 period, by obtaining 115 observations based on predetermined sample criteria from 31 company populations. This study uses three variables: the dependent variable (Y), MSME Financing. Independent variables (X) include Third-Party Funds, NPL, ROA, and CAR. As well as moderating variables (Z) in the form of interest rates.

RESULT

Descriptive Statistics Test

Descriptive statistical analysis is a technique for obtaining A descriptive presentation of the data's main attributes by looking at the maximum, minimum, mean, the standard deviation, sum, range, kurtosis, and skewness values (Amruddin et al., 2022). The following section presents the descriptive statistical results of this research:

Table 1. Descriptive Statistics Test Results

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
PKUMKM	115	12,40	16,84	14,6568	1,12535
DPK	115	14,98	18,66	16,7508	,82597
NPL	115	,01	6,27	2,3453	1,07392
ROA	115	,01	86,00	2,9103	7,85786
CAR	115	,17	45,72	25,0453	7,19387
BIRate	115	3,50	6,10	4,7240	1,04178
Valid N (listwise)	115				

The data presented in the table above indicates that n=115. which comes from the number of samples that have been determined at regional development bank companies in 2020-2024. The distribution of MSME financing spans from 12.40 at the lowest point to 16.84 at the highest, with a average value of 14.65 and a degree of variability of 1.12. The third-party funds variable exhibits values ranging between 14.98 (lowest) and 18.66 (highest)**,** with a mean of 16.75 and a standard deviation of 0.82. The non-performing loans variable shows variation from 0.01 up to 6.27, with an average of 2.34 and a deviation of 1.07. For return on assets, the values span from 0.01 to 86.00, with a typical value of 2.91 and a dispersion measure of 7.85**.** Capital adequacy ratio falls within the range of 0.17 to 45.75, recording a central tendency at 25.04, while the spread stands at 7.19. Lastly, the interest rate variable lies between 3.50 and 6.10, averaging 4.72 with a standard deviation of 1.04**.**

Classical Assumption Test

According to the statistical analysis performed using SPSS version 22, the Normality Test shows a significant value of 0.103> 0.05. These findings confirm the normality of the data. The multicollinearity analysis also provides the tolerance values corresponding to each of the four variables, where the independent variables have data> 0.10 and the number of VIF values < 10, meaning that the data is free from multicollinearity problems.

Multiple Linear Regression Test

Multiple linear regression is applied to assess the degree of influence the predictor variables exert on the outcome variable (Syarifuddin & Ibnu, 2022).

Table 2. Multiple Linear Regression Test Result

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	4,470	2,473		1,807	,074
DPK	,533	,137	,386	3,897	,000
NPL	-,012	,009	-,145	-1,448	,151
ROA	,004	,002	,186	2,095	,038
CAR	,054	,017	,329	3,106	,002

a. Dependent Variable: PKUMKM

Based on the data above, there is a mathematical equation that is used as the basis for the described approach

$$PK = \alpha + \beta 1DPK + \beta 2NPL + \beta 3ROA + \beta 4CAR + e$$

The equation above leads to the following analysis:

1. The analysis reveals that third-party funds positively affect MSME financing, as reflected by a coefficient of 0.533 and a significance level of 0.000.
2. Non-performing loans, with a regression coefficient of -0.012 and a significance of 0.151>005, indicate that they have no effect on MSME financing.
3. The return on assets (ROA) has an estimated coefficient in the regression model of 0.004 with a p-value recorded at 0.038 (<0.05), suggesting that ROA has a statistically significant and positive impact on MSME financing.
4. The capital adequacy ratio (CAR) yields a regression estimate amounting to 0.054 and a significance value of 0.002 (<0.05), indicating a significant and positive relationship between CAR and MSME financing.

Coefficient of Determination (R^2)

Table 3. Coefficient of Determination Test Results

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,815[a]	,664	,652	9,94421

a. Predictors: (Constant), CAR, NPL, DPK, ROA

The coefficient of determination indicates how effectively the model explains the variance observed in the dependent variable, with values ranging from 0 to 1 (Ghozali, 2018). These results demonstrate that third-party funds, NPL, ROA, and CAR significantly affect MSME loan activity is 66.40%. Meanwhile, the remaining 33.60% is influenced by other variables not examined in this study.

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Moderated Regression Analysis (MRA)

The Moderated Regression Analysis (MRA) testing method in this study is used to determine whether the moderating variable (Z) affects the association between the independent variables (X) on the dependent variable (Y) (Syarifuddin & Ibnu, 2022).

Table 4. Moderated Regression Analysis Test Results

Coefficients[a]

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-34,534	3,770		-9,159	,000
	DPK	2,576	,216	1,890	11,920	,000
	NPL	-,597	,229	-4,170	-2,612	,010
	ROA	-,190	,177	-,181	-1,074	,285
	CAR	,306	,024	1,959	12,609	,000
	BIRate	6,129	,761	5,674	8,050	,000
	DPKBIRate	-,294	,044	-4,746	-6,700	,000
	NPLBIRate	,097	,038	4,172	2,597	,011
	ROABIRate	,021	,038	,105	,565	,573
	CARBIRate	-,056	,004	-2,618	-13,351	,000

a. Dependent Variable: PKUMKM

Based on the table above, the following equation is obtained

$$\mathbf{PK= \alpha + \beta_1 DPK + \beta_2 NPL + \beta_3 ROA + \beta_4 CAR + \beta_5 (DPK*Z) + \beta_6 (NPL*Z) + B_7 (ROA*Z) + \beta_8 (CAR*Z) + e}$$

Based on the equation, it can be described as follows:

1. Interest rates significantly moderate the effect of third-party funds on MSME financing with a significant value of 0.000 <0.05.
2. Interest rates significantly moderate the effect of non-performing loans on MSME financing with a significant value of 0.011 <0.05.
3. Interest rates do not moderate the effect of return on assets on MSME financing, with a significant score of 0.000
4. Interest rates significantly moderate the effect of CAR on MSME financing with a significant value of 0.000 <0.05.

DISCUSSION

Third-Party Funds on MSME Financing

This study reveals that third-party funds are key in determining MSME lending within Regional Development Banks listed under OJK from 2020 to 2024. A higher volume of third-party funds contributes positively to the bank's financial performance, strengthening its ability to disburse credit to MSMEs. The bank's ability to attract public funds through deposit products can be a sign to the market that the bank is in good financial condition, which will then increase public confidence and encourage more parties to place their funds in the bank, thereby increasing the volume of lending, including to MSMEs. Community-sourced funds support the bank's capacity to disburse

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loans to MSME borrowers (Riadi, 2018: 1018). These findings are under Kusumawati & Manda (2021), Nurfajri & Mirati (2024), Hartini et al (2023), who found that third-party funds positively influence MSME financing.

Non-Performing Loan on MSME Financing

The study indicates no effect from non-performing loans on MSME financing outcomes at regional development banks in OJK, listed for 2020-2024. This indicates that the Bank continues to carry out the credit intermediation function to the MSME sector, even though the ratio of non-performing loans fluctuates, where the bank has relatively stable credit risk management to overcome potential problems in financing, so that it does not directly hamper lending. Thus, banks need to maintain and strengthen credit risk management policies that are already running well in order to continue to channel credit optimally and develop a more accurate credit scoring and debtor monitoring system so that credit quality is maintained even though credit volume increases (Pramudyawardani & Hakim 2024: 187). Similar to previous studies Pramudyawardani & Hakim (2024) and Gozali et al (2023), this study finds that non-performing loans do not significantly influence MSME credit distribution.

Return on Assets on MSME Financing

This study's results demonstrate that Return on Assets (ROA) significantly influences MSME financing at Regional Development Banks supervised by the OJK for the 2020–2024. This relationship suggests that an increase in a bank's ROA signals improved operational efficiency and the institution's ability to manage its assets profitably. Under such circumstances, banks are more likely to expand their credit distribution due to strengthened internal performance. A higher ROA also reflects effective management in utilizing assets to generate income, thereby enhancing the bank's capacity to support credit expansion efforts (Prihartini & Dana 2018: 1175) Consistent with prior studies Prihartini & Dana (2018), Jacobs & Hukom (2020), Safitri & Muslihat (2021), Khaddafi et al (2022) that return on assets has a positive influence on MSME credit.

Capital Adequacy Ratio on MSME Financing

The data analysis suggests that the capital adequacy ratio affects MSME financing at RDBs in OJK listed for 2020-2024. The effect of CAR on lending can be interpreted as a bank with a high Capital Adequacy Ratio, indicating that the bank has excess capital that can be used to expand the credit portfolio while still meeting capital adequacy requirements. With substantial capital, banks do not need to hold back the pace of lending when facing losses on certain loans, because banks still have capital reserves to cover these losses (Qulby, 2023:140). These findings are consistent with Ruslang et al (2024), Nurfajri & Mirati (2024), Panggabean & Irsyad (2023), and Qulby (2023) who found that the capital adequacy ratio positively influences MSME financing.

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Interest Rates Can Moderate Third-Party Funds on MSME Financing

The research indicates that interest rates moderate the link between third-party funds and MSME loan distribution in Regional Development Banks monitored by OJK (2020–2024), implying that the lending impact of third-party funds is closely tied to interest rate levels. When interest rates are stable, banks have a greater incentive to utilize third-party funds as a source of financing to support wider access to credit for MSMEs.

Thus, a benchmark interest rate reinforces the understanding that banks consider how much funds are raised and look at the direction of economic policy, such as the benchmark interest rate. If interest rates show favorable conditions, banks will be more confident lending to MSME players. In line with Kusumawati & Manda (2021), interest rates moderate the effect of third-party funds on MSME credit.

From an Islamic standpoint, employing an interest rate to moderate public deposits (Third-Party Funds) raises ethical concerns. In Islam, funds collected from the public are considered an *amanah* (trust) and must be managed fairly. (Alwi et al., 2021) Heavy reliance on interest-based returns risks violating this trust, making profit-sharing models like *mudharabah* more ethically aligned

Interest Rates Can Moderate NPLs on MSME Financing

The empirical results show that interest rates can moderate non-performing loans on MSME credit at Regional Development Banks in OJK for the 2020-2024. Even though banks have high NPLs, interest rates can reduce the negative influence of NPLs on bank decisions to extend credit to MSMEs. This occurs as lower benchmark interest rates create a more favorable environment for borrowing; the cost of borrowing becomes lighter, increasing the demand for credit from MSME players. This makes banks more willing to extend credit despite the greater risk of default. Likewise, when the benchmark interest rate condition is high, banks will continue to extend credit to MSME players because the potential profit of a bank will be greater, which can be obtained from the high interest rate (Devi & Widiasmara, 2019: 81). Consistent with Kusumawati & Manda (2021) and Devi & Widiasmara (2019) interest rates were found to moderate the effect of NPL on MSME credit.

Islamic teaching emphasizes timely debt repayment and explicitly condemns *riba* (usury) for causing financial oppression. If high interest rates worsen non-performing loans, it aligns with Islamic critiques that *riba* induces unstable credit behavior and financial burden on MSMEs (Hossain et al., 2024).

Interest Rates Can Moderate Return on Assets on MSME Financing

This research reveals that interest rates cannot moderate the influence of return on assets on MSME financing at Regional Development Banks listed under OJK from 2020 to 2024 period. This shows that the bank's decision to disburse credit based on profit is more

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internal and less influenced by fluctuations in the benchmark interest rate from Bank Indonesia. Banks are more focused on efficient use of assets and achieving profitability targets in determining credit policies, without relying too much on the conditions of the benchmark interest rate. In addition, the macroeconomic benchmark interest rate has more impact on overall monetary policy, so it is not strong enough to change the relationship between ROA and the bank's decision to distribute MSME financing (Devi & Widiasmara, 2019: 81). Consistent with Devi & Widiasmara (2019), interest rates were not found to moderate the effect of ROA on MSME credit.

Although the moderating effect of interest rate on the relationship between ROA and MSME financing is not statistically significant, this raises an important ethical reflection. In Islamic finance, profit generation should not depend on interest-based instruments, as *riba* is prohibited. Instead, Islamic banks pursue returns through productive economic activity and risk-sharing. According to Annizar & Junarsin (2025) *mudharabah* reduces financing risk and supports performance in Islamic banks, highlighting that profit without interest is both feasible and preferable in Islamic finance

Interest Rates Can Moderate Capital Adequacy Ratio on MSME Financing

The results of this study indicate that interest rates can moderate the Capital Adequacy Ratio on MSME financing at regional development banks registered with OJK (2020-2024). External signals, such as the benchmark interest rate, can affect the bank's internal decisions regarding channeling the funds raised. Banks with substantial capital will be more optimal when the BI Rate is stable.

This condition provides additional impetus for banks to be more confident in lending to MSMEs. Conversely, when the benchmark interest rate is low, while a bank's CAR is high, it may continue to extend credit as part of an expansion strategy but with a smaller profit incentive so that this can make the effect of CAR on lending to MSMEs not as strong as when the benchmark interest rate is high (Kusumawati & Manda, 2021). This study supports the findings of Kusumawati & Manda (2021) who identified interest rates as a moderating variable in the relationship between capital adequacy ratio and MSME credit.

The moderating role of interest rate on Capital Adequacy Ratio (CAR) highlights another Islamic concern, systemic reliance on interest may weaken financial stability and fairness. Islamic banking promotes capital adequacy through interest earnings, equity participation, and profit-loss sharing. According to Febriyanto et al. (2024), sharia compliant financing improves MSME growth while maintaining risk-sharing and social justice principles

CONCLUSION

This study analyzes the effect of third-party funds, non-performing loans, return on assets, and capital adequacy ratio on MSME financing, with interest rates as a moderating

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variable, using data from Regional Development Banks registered with the Financial Services Authority during the 2020–2024 period. Utilizing multiple linear regression and Moderated Regression Analysis (MRA), the study involved 115 observations.

The empirical findings show that third-party funds significantly positively impact MSME financing, emphasizing the importance of effective fund mobilization for productive sectors. This aligns with the objective of *hifz al-mal* (protection of wealth) in *maqashid shariah*, as proper distribution of public funds promotes financial inclusion and real-sector development. Non-performing loans were found to have no significant effect, indicating that, with proper risk management, loan quality may not hinder MSME lending. Meanwhile, return on assets and capital adequacy ratio positively affect MSME financing, demonstrating that financial efficiency and adequate capital support the sustainability of lending activities. These factors contribute to *maslahah* (public welfare) by supporting economic resilience and empowering small enterprises.

Furthermore, interest rates were found to moderate the relationships between third-party funds, non-performing loans, and capital adequacy ratio on MSME financing, though not the effect of return on assets. This highlights the dual role of interest rates: while crucial in conventional financial intermediation, from an Islamic perspective, they raise ethical concerns. The moderating effect of interest rates reinforces the relevance of *'adl* (justice) in financial transactions, and encourages a shift towards non-interest-based financing mechanisms such as *mudharabah* and *musyarakah*, which promote fairness and shared risk.

Practically, this study suggests that banks should focus on optimizing internal factors such as fundraising capabilities, asset efficiency, and capital strength, while also being mindful of external macroeconomic dynamics like interest rate volatility. Theoretically, the findings affirm signaling theory, as internal financial ratios signal a bank's ability to perform its intermediation role. At the same time, this study provides meaningful insights from the perspective of Islamic economics, highlighting how MSME financing serves not only economic growth but also the ethical, distributive, and social justice goals promoted by *maqashid shariah*. As such, this research offers contributions to both conventional and Islamic financial frameworks, and supports the development of inclusive, equitable, and values-based banking practices.

Limitation

This research is limited because it only examines the Regional Development Bank (RDB) and only a few variables, so further research is expected to be conducted on the sector. Other companies listed in the OJK and with a more extended research period, so that the research results have novelty. Future researchers can add other variables that have not been studied in this study, such as Loan to Deposit Ratio (LDR), Operating Costs, Operating Income (BOPO), Net Interest Margin (NIM), and so on. Future researchers can also use different analytical tools with current research for maximum results.

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