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The Benefit of Profit-Sharing Islamic Microfinance Models (Musharaka) in Expanding Financial Inclusion and Business Sustainability for B40 Women Micro-Entrepreneurs in Malaysia: A Literature Review

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Abstract

Given the challenges that B40 women face to financial inclusion due to gender disparities, a lack of collateral, and insufficient financial literacy, Musharaka provides an efficient partnership-based method with shared advantages and disadvantages. This study intends to find out the effectiveness of Musharaka, a profit-sharing Islamic microfinance model, in empowering B40 women micro-entrepreneurs in Malaysia. Methods of this paper is a qualitative survey and identifies gaps in existing literature, emphasizing the need for context-specific research targeting B40 women entrepreneurs in Malaysia. As a result, it has the potential to raise financial inclusion and improve company sustainability throughout this group. Future research directions include empirical studies, quantitative research, comparative analyses with conventional financing options, and policy implications to enhance financial inclusion and sustainable business growth for B40 women micro-entrepreneurs.

Keywords: Islamic microfinance; Musharaka model; B40 women micro-entrepreneurs; Financial inclusion; Profit-sharing

Introduction

Over the past ten years, financial inclusion has rapidly expanded as result of actions taken by several Asian nations to increase everyone's access to financial services. Thus, experts conclude that by accepting microfinance, all modest financial services assist the impoverished in raising their income level. It covers credit, savings, insurance, and sending money to the impoverished who do not have access to banks. This profile may serve to highlight the significance of microfinance as a development tool, as it is currently recognized as a promising instrument (Islam et al., 2021).

Moreover, Professor Muhammad Yunus created microcredit or microfinance through the Grameen Bank Project in Bangladesh, which provides small loans to the underprivileged, primarily women, for self-employment. This approach, which is based on solidarity group loans, has been highly successful at helping people out of poverty. Following its success, programs for microcredit have been introduced to other nations, including Malaysia. In Malaysia, the Ikhtiar Project, inspired by Grameen Bank, was launched in 1986 to provide monetary support to those in need (Muda et al., 2022).

There are two types of microfinances such as conventional microfinance and Islamic microfinance. Conventional microfinance is the provision of financial services, such as relatively small loans, savings accounts, insurance, and payment systems, to low-income individuals who do not have access to standard banking services. Conventional microfinance institutions (MFIs) follow market principles and often charge interest on loans given to consumers. These microfinance organizations look to promote financial inclusion, reduce poverty, and encourage individuals to improve their livelihoods through offering access to financial services. Besides that, conventional MFIs can be for-profit or charitable organizations and have various sizes, frameworks, and methods of operation. They frequently offer financial services that are concentrated on the needs of micro-entrepreneurs, small companies, and individuals in communities that are underrepresented. Conventional MFIs generally provide microcredit (small loans), micro-savings, micro-insurance, and money transfer services. While traditional microfinance has been successful in reaching millions of clients and promoting economic development in many regions, it has been criticized as well for high interest rates, mission drifts towards commercialization, and exclusion of the poorest and most vulnerable populations. These challenges resulted in the investigation of alternative approaches to microfinance, such as Islamic microfinance, which goes on Islamic principles and prohibits the charging of interest (riba) (Ahmad et al., 2020).

Apart from this, the Islamic microfinance model, which emphasizes the welfare of all participants equally and shares risk between lenders and borrowers, is created by combining Islamic microfinance principles with Shariah principles. Traditional microfinance and Islamic microfinance, which adhere to Shariah, share certain similarities (Soh & Hisyam, 2019). Additionally, according to results from a global survey carried out by The Consultative Group to Assist the poor in 19 Muslim countries, 20–40% of respondents stated that their refusal to use the current interest-based microcredit products is primarily due to their religious beliefs.

Islamic financial principles require: (1) prohibiting interest; (2) forbidding deception and the acquisition of wealth by chance; (3) requiring that tangible assets back all funding; (4) restricting investment for non-halal activities; and (5) requiring profit and loss-sharing (Ratnawati & Sari, 2021). Apart from this, women are heavily represented in the workforce and contribute significantly to the economy of Malaysia. Women made up 49% of the population in 2010 and worked for roughly 48% of the time. Male entrepreneurs outweigh female entrepreneurs, with a greater labor employment rate, despite government initiatives to encourage entrepreneurship. In order to overcome gender inequities in entrepreneurship, programs such as the Special Assistance Scheme for Women Entrepreneurs seek to increase women's competitiveness and facilitate easier access to finance (Hoe et al., 2012).

In addition, incorporating Islamic microfinance models with profit-sharing, such as Musharaka, into programs that assist Malaysia's B40 female micro-entrepreneurs is a viable way to advance sustainable business practices and broaden financial inclusion. Additionally, the income of B40 women micro-entrepreneurs was shown to have increased dramatically as a result of the Amanah Ikhtiar Malaysia microcredit scheme in Malaysia. These women's transition to higher income categories was largely influenced by variables like education and loan amount. Through risk and reward sharing, Musharaka promotes ethical financing, strengthens business sustainability, and empowers entrepreneurs.

Over the last decade, financial inclusion has grown dramatically in various Asian nations as a result of evaluations aimed at increasing access to financial services for all, particularly those who are poor. According to (Abdelkader & Salim, 2014) despite its success in encouraging economic development, conventional microfinance has been criticized for its high interest rates, commercialization, and exclusion of the poorest populations. Furthermore, Islamic microfinance, which follows Shariah laws, has developed as an alternating model, although its integration and impact, particularly on female entrepreneurs in Malaysia, remains unclear.

Overview of Islamic Microfinance Models

Islamic microfinance encompasses various models, each with unique principles and features. A prominent model is Musharaka, derived from the Arabic term for "sharing." In Musharaka, partners establish a business venture, contributing capital and effort, sharing profits and losses based on predetermined ratios reflecting each partner's contribution (Arshad & Ismail, 2010). This term should not be confused with Mudaraba, another equity-based mode of Islamic finance, or Murabaha, a sale where the original cost and final price are known to the client (Usmani & taqi, 2002).

Musharaka can take forms like Shrikat-ur-Milk (ownership-based) and Shirkat-ul-Aqd (contract-based), further divided into Shirkat-ul-amwal (capital contribution), Shirkat-ul-amaal (joint services), and Shirkat-ur-wujoon (commodity trade) (Arshad & Ismail, 2010). Shrikat-ul-Milk refers to co-ownership of assets, which can arise at the parties' discretion, such as when a group buys equipment together (Shunyataxfin, 2023). Shirk-ul-‘Aqd involves a collaboration through a contract and is considered a "joint economic venture" (Shunyataxfin, 2023). Shirkat-ul-Amwal involves financial contributions to the business, Shirkat-ul-amal involves partners providing labor and services, sharing revenue accordingly, and Shirkat-ul-wujooh involves trading goods acquired at lower prices, with profits shared based on a predetermined ratio (Nafisahon, 2024).

Musharaka partnership is equal rights in which two or more parties contribute capital to a commercial company. A Musharaka agreement requires all partners to share in the venture's profits and losses in proportion to their capital contributions. Capital contributions can be in cash or assets, with values agreed upon beforehand to prevent disputes. It is a cooperative partnership in which everybody participates to business management and decisions are often determined through mutual agreement. Musharaka has an extensive variety of applications, including project financing, trade, and investment (Gafoor, 1996).

Beyond Musharaka, other Islamic microfinance models exist, such as Mudaraba and Sukuk. The Mudharabah is a contract partnership whereby one party contributes capital and the other parties perform the work. Profit will be divided between partners according to the mutually agreed-up ratio, and any losses that occur are taken on by the capital provider. Also, debt-based financing is the most common type of financing in the Islamic financial system, with equity-based financing being offered by some banks. whereas equity-based financing matches with the philosophical values of Islamic Banking, it has not achieved full customer sensitivity as well (Jais et al., 2020).

On the other hand, Sukuk represents ownership in a tangible asset or service, providing investors with a share of the profits generated from the underlying asset. (Ali & Hussain, 2017). It is an Islamic financial document that conforms to Sharia, the body of Islamic morality, and it is comparable to a bond in Western banking. In addition, the bond issuer must contractually guarantee to repurchase the bond at the paramount at a later time. Sukuks most frequently take the shape of trust certificates. The design of this kind of Sukuk is more intricate, yet it is still subject to Western law. Initially, the fund-raising group established a foreign special purpose vehicle (SPV) (Ganti, 2022).

Musharaka's Impact on Financial Inclusion

In the context of financial inclusion within the research on the significance of Musharaka in Islamic banking, it is essential to delve into various aspects that contribute to enhancing access to financial resources, promoting financial literacy, and encouraging participation in the formal financial system.

Financial Inclusion and Access to Financial Resources
Financial inclusion aims to provide individuals and businesses with access to essential financial services, including credit, savings, insurance, and payment services. In the case of Musharaka in Islamic banking, promoting financial inclusion involves ensuring that a wider range of individuals and businesses have access to participatory financing opportunities. By facilitating Musharaka transactions, Islamic banks can cater to the financial needs of a diverse set of clients, including those who may not have access to traditional banking services. This inclusivity can help in fostering economic growth and reduce income inequality within society (Ali & Hussain, 2017).

Participation in the Formal Financial System

Encouraging participation in the formal financial system is key to promoting economic stability and growth. Through Musharaka, individuals and businesses can actively participate in the financial system by engaging in profit-sharing partnerships with Islamic banks. This participatory approach not only fosters a sense of ownership and responsibility among stakeholders but also promotes a more equitable distribution of wealth and resources within the economy. By expanding the reach of Musharaka and encouraging broader participation, Islamic banks can contribute to the overall development and stability of the formal financial system (Ali & Hussain, 2017).

Perception

According to popular belief, Islamic social finance is not just used for philanthropic and spiritual endeavors. It might make a major contribution to the objectives of environmentally friendly development (Ismail, 2018). Nonetheless, there is a disconnect between Islamic financial organizations' real application of their corporate social responsibility (CSR) and their comprehension of it (Aribi, 2014). To guarantee genuine economic growth and social benefit, Platonova (2013) highlights the significance of incorporating Islamic moral economics concepts into financial operations, including CSR. While highlighting the importance of zakat, waqf, and sadaqah in raising funds to boost the economy, (Mukhid, 2024) also points to drawbacks, including low public knowledge and a preference for traditional financial institutions. The Islamic religious council and nonprofit organizations (NGOs) provide the vast majority of Islamic social financial services, especially waqf and sadaqah. Government agencies including TEKUN, MARA, and PUNB generally offer Islamic microfinance through loans. Individuals have to repay the government within the specified time frame. NGOs such as Amanah Ikhtiar Malaysia (AIM) and Yayasan Usaha Maju (YUM) provide Islamic microfinance services using government and donor funds (Nawai et al., 2023).

Musharaka's Contribution to Business Sustainability

According to Ali & Hussain (2017), Musharaka, as an equity-based and participatory mode of Islamic finance, significantly benefits micro-businesses by providing access to financing, sharing risks, enabling growth, ensuring Shariah compliance, and fostering long-term relationships with financial partners. Through Musharaka, micro-business owners can secure capital without traditional collateral or credit history, share financial risks with Islamic banks, and gain a safety net during economic uncertainties. This partnership allows for business expansion, investment in new equipment, and entry into new markets. The Shariah-compliant nature of Musharaka aligns with religious principles while fostering mutual trust and cooperation, enhancing the micro-business's chances of success.

Formalizing Musharaka's Contribution to Business Sustainability

Musharaka, an equity-based Islamic financing model, offers a unique approach that fosters business sustainability for micro-enterprises, particularly those owned by B40 women in Malaysia. This section delves into how Musharaka's core principles contribute to financial prudence, risk management, and ethical business practices, ultimately leading to a more sustainable business model (Ariffin et al., 2015).

Financial Prudence: A Foundation for Long-Term Stability

Musharaka's shared profit-and-loss structure inherently incentivizes financial prudence among micro-entrepreneurs (Ali & Hussain, 2017). Unlike traditional debt financing, which can burden businesses with fixed interest payments, Musharaka aligns the entrepreneur's and Islamic bank's interests. This partnership model discourages excessive debt and promotes responsible financial management, as entrepreneurs become acutely aware of the impact of their decisions on shared profits and losses (Chapra, 2008). This focus on financial prudence lays a strong foundation for long-term business sustainability by encouraging sound financial planning, resource optimization, and a cautious approach to investments.

Ethical Business Practices: Aligning with Sustainability Goals

Islamic finance principles, at the core of Musharaka, emphasize ethical conduct and social responsibility (Ali & Hussain, 2017). This translates to businesses operating with a focus on environmental and social sustainability. Musharaka discourages environmentally harmful practices, such as excessive resource depletion or pollution, as such activities could negatively impact future profits for both partners. Based on International Monetary Fund (2009), Shariah-compliant principles often encourage fair labor practices, resource conservation, and community engagement, all of which contribute to broader sustainability goals . By aligning with ethical business practices, B40 women entrepreneurs engaging in Musharaka can contribute to a more sustainable future for themselves, their communities, and the environment.

Profit-Sharing and Microfinance Models

Profit sharing in Islamic microfinance has been achieved through the Mudarabah and Musharakah models, which involve a partnership where the financier and entrepreneur share profits and losses. This promotes risk-sharing and fairness. Non-sharing financing models like Murabahah offer fixed profits. Research suggests that increasing the use of profit-sharing models can reduce risk and enhance profitability in Islamic microfinance (Mawardi et al., 2012). This profit-sharing has multiple benefits. The first is alignment of aims. According to Joudeh (2012), Profit-sharing has a better plan to connect microfinance aims with a decrease in poverty objectives because both parties have a financial interest in the business's success. Second is promoting business development. By connecting loan repayments to business performance, microfinance institutions are encouraged to promote and support income-generating businesses, hence assisting long-term economic growth (Besan, 2012). The third is focus on income development. Based on Abu-Joudeh and Besan (2012). Profit-sharing models prioritize income-generating activities, which may be beneficial to long-term economic growth and poverty reduction. The last is ethical and responsible funding. Regarding consumer loans, profit-sharing models support responsible banking practices and long-term partnerships with borrowers, and encourage sustainable economic growth (Besan, 2012).

Comparison Between Conventional Microfinance with Shariah

Conventional microfinance loans are usually interest-based, and borrowers will repay the principal plus interest. In contrast, Shariah-compliant microfinance follows Islamic principles which prohibit the charging or receiving of interest. Instead, Shariah-compliant microfinance often consists of profit-sharing contracts, such as mudarabah and Musharakah, in which profits are divided between the financial institution and the entrepreneur. Shariah-compliant microfinance must follow Islamic law and regulations, ensuring that money transactions and investments align with Shariah principles. Moreover, clients of Shariah-compliant microfinance may have different viewpoints and preferences than traditional microfinance clients. Managing client mistakes and educating them on Shariah-compliant financial products are vital for the success of Islamic microfinance (Mansori et al., 2015).

Comparison Between Conventional Microfinance with Financial Inclusion

Conventional microfinance focuses on providing financial services including small loans to low-income people, particularly in developing countries, in order to boost entrepreneurship and improve livelihoods. It is typically provided by specialized microfinance institutions or ordinary banks. Apart from that, financial inclusion is a broader term that aims to ensure that every sector of society has equal access to a variety of financial services such as savings, credit, insurance, and payments (Baber, 2020).

Comparison Between Conventional Microfinance with Perception

Micro-entrepreneurs and petty traders' perceptions of conventional and Islamic microfinance were found to be profit-driven and less effective in helping the needy due to high interest rates and collateral requirements, while Islamic microfinance was perceived as a more ethical and beneficial choice. People preferred Islamic microfinance because of its ability to help the poor, minimize extra charges on the initial funding, and conform to Islamic values. However, concerns have been expressed about Islamic banks' collateral requirements and management procedures. Overall, Islamic microfinance was perceived more positively than conventional microfinance due to its social impact and adherence to Islamic values (Abbas & Shirazi, 2015).

Diverging Paths: Financing Structures and Risk Management

The core difference lies in the underlying financial structure. Musharaka operates on a profit-sharing basis, where partners, typically the Islamic bank and the entrepreneur, contribute capital and share profits and losses according to a predetermined ratio (Arshad & Ismail, 2010). Conversely, conventional microfinance relies on debt financing, where borrowers receive a loan with interest, which they repay over a fixed term (Chapra, 2008). This distinction in risk management is crucial; Musharaka inherently promotes shared risk between entrepreneur and the bank, fostering a collaborative partnership approach (Ali & Hussain, 2017). In contrast, conventional microfinance places the majority of the financial risk on the borrower, potentially leading to higher debt burdens and hindering business growth (Ibrahim, 2017).

Islamic microfinance, as defined by Ledgerwood (1999), offers monetary assistance to customers with modest incomes, primarily through deposit activities and credit. It differs from traditional microfinance by using Islamic financing tools such as Murabaha and Mudaraba contracts (Ahmed al et., 2020). Since loans are prohibited in Islam unless it is interest-free, Islamic microfinance centers are limited to providing interest-free loans like Qard Al-Hasan (Rahim & Rahman, 2007). Shariah-compliant products emphasize partnerships and profit-sharing, which impact the long-term viability of Islamic microfinance companies due to credit risk (Manan et al., 2014). While both conventional and Islamic institutions face similar risk vulnerabilities (Rozzani et al., 2017), Islamic finance deals with unique challenges in financial activity and contract elements. The microfinance sector faces significant risks such as credit and liquidity risks, with interconnected financial, operational, and strategic risks affecting liquidity, market conditions, and reputation (Castellani & Cincinelli, 2015). Despite these risks, the sector is known for maintaining positive client relationships and exchange.

Empowering B40 Women Micro-Entrepreneurs: Leveraging Musharaka in Islamic Finance for Sustainable Growth and Partnership

Musharaka presents several advantages for B40 women micro-entrepreneurs. By sharing profits and losses, it reduces their debt burden and fosters a partnership with the Islamic bank, potentially providing valuable guidance and support (Ali & Hussain, 2017). Furthermore, the profit-sharing model incentivizes entrepreneurs to focus on business growth and profitability, leading to greater financial sustainability (Ibrahim, 2017). Studies by Ali & Hussain (2017), suggest that profit-sharing microfinance models can lead to improved customer satisfaction and market responsiveness among micro-entrepreneurs, further contributing to business success.

However, challenges exist. Determining profit-sharing ratios and managing profit distribution can be complex, requiring clear legal frameworks and robust accounting practices (Gafoor, 1996). Additionally, the limited availability of Musharaka financing compared to conventional models might also pose a challenge, particularly for first-time entrepreneurs unfamiliar with Islamic finance structures (Rammal, 2004). Further research is needed to explore how these challenges can be addressed to promote wider adoption of Musharaka among B40 women micro-entrepreneurs.

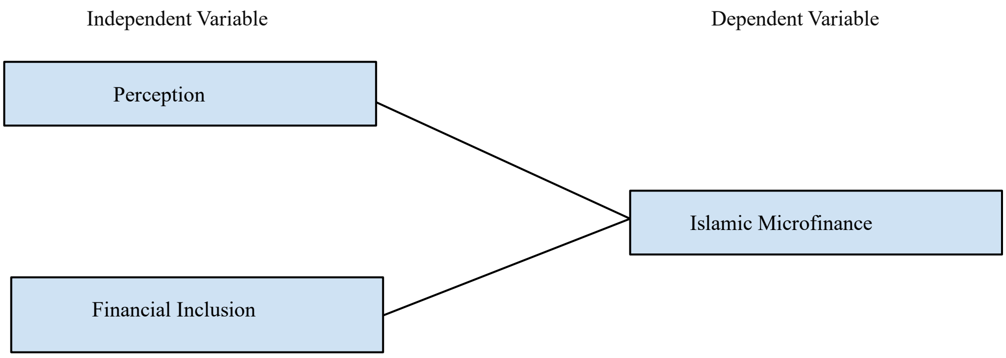

Figure 1: Conceptual framework

Figure 1 shows the conceptual framework for the study. For dependent variable in this research is Islamic microfinance. The independent variable in this study is the financial inclusion and perception of B40 women micro-entrepreneurs in Malaysia.

Implementing of Musharaka in Malaysia Context

The significance of implementing profit-sharing Islamic microfinance techniques, particularly the Musharaka model, to empower B40 women microentrepreneurs in Malaysia. Musharaka provides a Shariah-compliant alternative that reflects the values of justice and partnership by adhering to Islamic financial principles that prohibit interest, promote ethical financing, and demand tangible asset backup. A key area of discussion is Musharaka's role in solving gender gaps in entrepreneurship and financial inclusion. Despite the fact that women make up a significant portion of the Malaysian workforce, they are still underrepresented in entrepreneurship, because of obstacles such as limited access to capital and resources. The implementation of programs such as the Special Assistance Scheme for Women Entrepreneurs and the Amanah Ikhtiar Malaysia microcredit scheme has showed promise in terms of enhancing women's competitiveness and income. Furthermore, the discussion highlights the importance of conducting context-specific research on B40 female micro-entrepreneurs in order to better understand their obstacles and potential. Researchers may acquire significant knowledge into Musharaka's impact on metrics for business performance and the lived experiences of women entrepreneurs by conducting empirical studies and using strict approaches such as case studies and questionnaires.

Besides that, Malaysian business leaders demonstrated a commitment to innovative financial solutions by investigating the use of equity-based financing via Musharaka Mutanaqisah in Islamic banks (Rahman et al., 2015). This highlights the potential for Islamic microfinance to not only improve financial inclusion but also boost economic empowerment for those who are underprivileged. The inclusion of Islamic microfinance into the wider financial environment offers an outstanding chance to promote inclusive economic growth and empowerment. Policymakers and financial institutions can establish customized programs that address the special requirements of disenfranchised populations, such as B40 women entrepreneurs, by embracing varied Islamic microfinance models and focusing on their unique characteristics. Further study and empirical investigations on the impact of Islamic microfinance, can lead to a better understanding of its ability to advance financial inclusion and economic empowerment.

Conclusion

Perception is essential to the acceptance of Islamic microfinance. A positive perspective on Islamic finance, based on faith in Shariah principles, ethical business practices, and community values, improves the potential of entrepreneurs using these financial instruments. Misconceptions regarding Islamic financing, it may hinder its implementation, emphasizing the need for increased education and awareness. The Musharaka concept, which incorporates profit and risk sharing, shows potential for empowering Malaysian B40 women micro-entrepreneurs. This model encourages financial prudence, ethical business practices, and long-term stability, making it suitable for poor women's business growth and financial inclusion. Overall, Islamic microfinance models such as Musharaka can improve financial inclusion, ethical lending, and the empowerment of female entrepreneurs. Future research should focus on conducting empirical studies such as analyze financial data, interview B40 women entrepreneurs using Musharaka, and assess changes in business performance indicators like growth, profitability, and resilience. Another future research is focus on quantitative research. By employing quantitative methods like case studies to explore the lived experiences of B40 women entrepreneurs. This can provide valuable insights into decision-making processes, challenges overcome, and strategies for building resilient businesses using Musharaka financing. The current body of research presents several limitations. One of the limitation is lack of context-specific research. Existing research on Musharaka's impact often fails to target B40 women micro-entrepreneurs in Malaysia specifically. Understanding the specific challenges and opportunities faced by this demographic is crucial for drawing meaningful conclusions relevant to their context (Hoe et al., 2012). Thus, there's a scarcity of empirical studies employing robust methodologies like case studies or surveys to gather data directly from B40 women entrepreneurs using Musharaka (Hoe et al., 2012).

Enhancing academic staff job happiness is essential for raising productivity in universities. Three factors pay and benefits, work environment, perceived organisational support, job security, and workload, were found to have a positive and important impact on job satisfaction, according to a study. These results are in line with those of earlier investigations, which likewise support the same conclusions. The element with the greatest impact on job happiness has been found as employment security. To foster more commitment and loyalty among their workers, universities should concentrate on instilling a sense of security. It is crucial to fully implement organisational commitment if academics are to experience job happiness and perform well. To enable instructors to demonstrate their abilities and potential, this entails consistently focusing on and improving their capabilities. Strong commitment fosters enjoyment, emotional attachment, a sense of belonging, loyalty, and a pleasant working environment for lecturers. Employee competency must be consistently improved through knowledge, skills, experience, and professionalism. Lecturers can find job pleasure and boost their performance by continually strengthening organisational commitment. Employee reliability and professionalism are ensured through maintaining and enhancing their abilities, which eventually results in higher job satisfaction and better performance.

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