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## MUSHARAKAH AS A MEANS OF FINANCING SMALL SCALE ENTERPRISES IN KANO STATE

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### ABSTRACT

This study analysed the effectiveness of musharakah financing for empowering micro-businesses from the perspective of entrepreneurs in Kano State. This research is qualitative in nature, and used a critical analysis method. Interview was the research instrument used to determine factors affecting the effectiveness of musharakah financing in empowering micro-small businesses of Baitul Maal wat Tamwil (BMT) entrepreneurs in the Kano State. Entrepreneurs from two BMT in Kano State had been interviewed. The results showed that BMT musharakah financing played an important role in the business development of Micro and Small businesses, especially in terms of increasing business capital, easy access to take financing, and a small number of installments. In addition, musharakah financing is effective in encouraging Micro and Small Enterprises (MSEs) empowerment, to increase the amount of merchandise inventory, add new types of products, expand businesses and add new equipment for business facilities. This study limits the ability to generate findings to a larger population of small scale enterprises which obtain Sha'riah financing from Islamic microfinance institutions (Baitul Maal Wat Tamwil) in Kano State. The research findings can be used on how to empower small scale enterprises with Islamic financing and the development of Islamic microfinance institutions. This paper has contributed to the approach of empowering small micro-businesses with musharakah financing, which is considered to have a less contribution to BMT income. In addition, this study uses a critical analysis method to get a new perspective on the use of musharakah financing from the view of small entrepreneurs.

**Keywords:** micro-businesses, micro and small enterprises, musharakah financing, Sha'riah financing

### INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are the most important pillars in an economy. The empowerment of MSMEs can effectively tackle poverty and unemployment. In practice, MSMEs are a strategic force, and are important for accelerating economic growth and development, hence require policy framework and support. Baitul Maal wat Tamwil (BMT), is a combination of Islamic social and commercial finance at the micro-level. Islamic social finance uses Islamic social instruments, such as zakat-infaq-sadaqa and waqf (ZIS-Waf), managed by the Baitul Maal division; while Islamic commercial finance uses Islamic commercial instruments, such as micro deposits, micro-financing, micro takaful, and other micro-financial services managed by the Baitul Tamwil division. (Ascarya, et al., 2018).

Specifically, BMT divide activities into three areas, namely, the real sector, financial intermediation, and social intermediation. In terms of the real sector, BMT invest funds in long-term business activities. As a financial intermediary, BMT is designed to conduct financial intermediations through mobilizing deposits and financing commercial ventures. In addition, as a social intermediary, BMT is dedicated to performing socio-religious roles by collecting charity donations from Muslims and helping the needy along with their spiritual lives (Adnan & Ajija 2015; Putra & Isfandayani 2020).

Initial capital of BMT comes from members, just like cooperatives, although it can also accept cash (waqf) from wakif to be placed as part of the capital. Many types of financing are offered by BMTs. Generally, they promote financing of profit-loss sharing (*mudharabah* and *musharakah*), *murabahah*, *bai'bitsamanil Ajil*, and *ijarah*. As a social intermediary, BMT collect *zakat*, *infaq*, *shadaqah*, and *waqf* from donors (*muzakki* [*zakah*] *munfiq* (*infaq/shadaqah*), and *wakif* (*waqf*), to distribute to recipients in *qardh al hasan* scheme. (Ascarya et al., 2018; Rokhman, 2013; Wulandari et al., 2016).

### The Musharakah Financing Agreement

*Musharakah* financing is a contract between cooperatives and owners of capital in certain businesses, to combine capital and conduct joint business in a partnership, with a profit-sharing ratio according to the agreement of the parties, and in which loss is borne proportionally following capital contribution. These funds include cash or non-cash assets permitted by *sharia*. *Musharakah* investments can be provided in the form of cash, cash equivalents, or non-cash assets (Ascarya & Yumanita, 2014).

According to Karim (2015), an agreement with a *musharakah* contract must meet the following pillars: a party to the agreement (bank and entrepreneur where capital is also the executor), capital (each party includes capital to buy an asset or carry out a particular business/project), contract object (contract object can be in the form of assets, projects or businesses that will produce profits for the parties), *ijab qabul* (statement of offer and acceptance stated by related parties to show their respective wishes in agreeing), profit sharing ratio (share the portion of profits to be obtained by the parties in the form of a percentage not a fixed amount of money).

The following is a picture of the *musharakah* scheme consisting several stages as follows: entrepreneurs apply for credit to the bank through the *musharakah* contract, the credit is intended for business activities which include business capital and skills. These business activities generate profits that will be shared between Shariah financial institutions and entrepreneurs according to the contract (Karim, 2015).

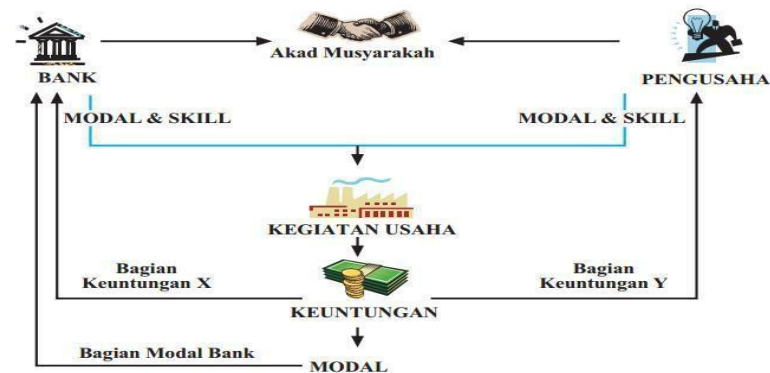


Fig. 1: *Musharakah* scheme

### Previous Studies on Musharaka

Previous research showed that BMT financing to micro-business operators, namely traders in traditional markets in the Jakarta district, has had a positive role in business development and improving the welfare of entrepreneurs, but it is not significant. This is a challenge for BMTs who work in Jakarta Regency to be better. (Prastiawati & Satya Darma, 2016).

According to Wulandari (2016), there is a uniqueness in financing Islamic microfinance institutions in financing the poor who are their customers by considering financing products in 3 phases: pre-financing, financing, and post-financing phases based on BMT's experience as a sharia microfinance institution in Kano. Effendi and Pratiwi (2017) analysed the characteristics of micro-enterprises based on the rate of return on *musharakah* and analyzes the factors that influence rate of return on *musharakah*

financing given to micro-enterprises at BMT Al-Munawwarah, South Tangerang. The results showed that gender, amount of financing, collateral, other loans, and BMT visits significantly affect rate of return on musharakah financing.

The difference between this study and previous research is that this study discusses the impact of *musharakah* financing on income in micro and small businesses in Islamic microfinance institutions, precisely at BMT in Kano state, focusing on entrepreneur perspective with a critical approach.

## METHODOLOGY

This study used primary data obtained from respondents through interviews with *musharakah* financing entrepreneurs to provide information on the problems raised at the time of the study. Data was also obtained from internal BMT documents, such as financing procedures, financing systems, policies, and portions regarding *musharakah* financing. The data analysis method used in this study is critical analysis. Adnan et al. (2014) mentioned that critical analysis is a way to understand the reality behind clear or direct meanings. Critical analysis is a capacity, a potential that is shared by everyone. Nevertheless, critical analysis will still be blunt and not develop if it is not sharpened and practiced. Critical analysis determines the possibility of a new reality, a better agreement.

According to Muhadjir (2000, as cited in Adnan et al., 2014), in terms of the philosophy of science, critical theory has been active in creating meaning, not merely passively accepting meaning for its role. The most important tool for carrying out a critical analysis, which is the "question". First of all, critical analysis requires finding facts and characteristics of the situation or reality that is being tried to be understood. Namely by finding out: "What is happening?"; "What are the consequences of this situation? What is the impact of the situation or event or statement on the other party?"; "Who is the party that benefits from the situation or proposal?"; "Who has been harmed by the situation or proposal?"; "What is the cause of this situation?" (Adnan, 2013).

The critical analysis also tries to understand the "history" of statements, situations, or problems that need to be understood. A critical analysis examines situations or events or statements that are in the process of change. "How can the situation occur? How permanent is the situation? What are the possible ways for the situation to change? What is the cause of the change? A critical analysis examines the situation or event from a complete perspective. The contradiction or opposite of a situation needs to be sought when observing a new situation or several circumstances. Critical analysis research method is one example of the application of qualitative methods carried out explosively, using the method of critical analysis, the analysis will focus on aspects of language and contexts related to related aspects.

## RESULTS

In this study, 19 informants were interviewed from two markets who met the criteria. Informant interviews were conducted in various places in Kano State, namely the *Abubakar Rimi market*, the *Singer market*, the *Kofar wamabai*, the *Kwari market* and where the locations of these informants. The general condition of the informant is as follows:

**Table 1: Demographic Data**

Sex	Number	Percentage
Male	9	47
Female	10	53
Total	19	100
Age		
31-40	7	37
41-50	5	26
51-60	6	32
61<	1	5
Total	19	100
Education		
Junior High school (SMP)	4	21
Senior High school/Vocational school (SMA/SMK)	15	79
Total	19	100

Source: Field data (2023)

The Number of respondents was 19 people, where 47% of informants are male, while 53% are female. It is found that most entrepreneurs are at the age of 31-40 years and their education was high senior high school by 79%

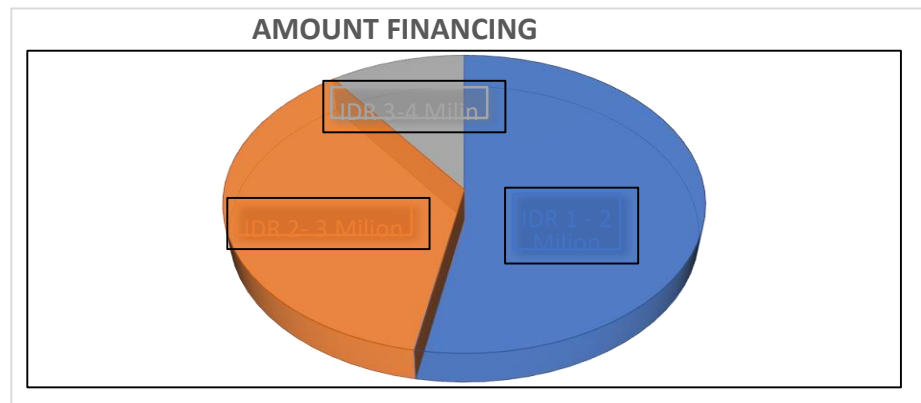


Figure 2: Amount Financing

Source: Field data (2023)

Figure 2 shows that the number of financing received by an entrepreneur who is a respondent of this study is more dominant to receive funding of # 1,000,000.00 - # 2,000,000.00 of 53% or as many as 10 people. This, of course, has been adjusted to the capital required by the entrepreneur and has been adjusted to the ability of the entrepreneurs in the payment.

**Table 2: Informant Data Based On the Duration of the Financing**

No	Duration Of Financing (year)	Number	Percentage
1	1-2	2	10
2	2-3	2	11
3	3-4	2	11
4	4-5	5	26
5	5<	8	42
	<b>Total</b>	<b>19</b>	<b>100</b>

Source: Field data (2023)

It can be seen from Table III the entrepreneurs who were the respondents in this study were 42% or as many as 8 people who have received financing from BMT for more than 5 years. This shows that the majority of entrepreneurs have for years been getting funding from the same BMT. The results of the interviews of researchers with informants regarding the informant profile are as follows:

- 1) Mrs. SP, 64-years old, trades fruits in the Abubakar rimi market with funding of # 3,000,000.and she has received financing for 10 years from BMT.
- 2) Mrs. SK, 43 years old, trades vegetables in Abubakar rimi market with funding of # 1,000,000 and she has received financing for 4 years from BMT.
- 3) Mr. SH, 45 years old, trades vegetables in Abubakar rimi market with funding of # 1,000,000 and he has received financing for 4 years from BMT.
- 4) Mrs. SM, 52-years-old, sells catfish in Abubakar rimi market with the financing of # 1,000,000. She has received financing for 10 years from BMT.
- 5) Mrs. ER, 33-year-old. She sells sea fish in Abubakar rimi market with funding of # 2,000,000 and she has received funding for 8 years from BMT.
- 6) Mr. SY, 50 years old, trades vegetables in the Singer market with the financing of # 2,000,000 and he has received financing for 10 years from BMT.
- 7) Mr. SI, 37 years old, sells groceries in the Singer market with funding of # 1,000,000 and he has received financing for 4 years from BMT.
- 8) Mr. JN, aged 41, sells various snacks at the Singer market with the financing of # 1,000,000 and he has received financing for 4 years from BMT.
- 9) Mrs. AG, a woman aged 35 years, sells fish in Kurmi Market with funding of # 2,000,000 and she has received financing for 4 years from BMT.
- 10) Mrs. SI, aged 31, sells chicken meat in Kurmi Market with funding of # 1,000,000 and she has received funding for 7 years from BMT.
- 11) Mrs. SY, aged 55, sells snacks at the Kurmi Market with funding of # 1,000,000 and she has received financing for 10 years from BMT.
- 12) Mr. TM, age 44, trades vegetables in Kurmi Market with funding of # 1,000,000 and he has received financing for 4 years from BMT.
- 13) Mr. KD, aged 51, sells food at the Kurmi Market with funding of # 3,000,000 and he has received financing for 10 years from BMT.
- 14) Mr. BG, 56 years old, sells chicken meat at Kofar wamabai with the financing of # 2,000,000 and he has received financing for 4 years from BMT.
- 15) Mrs. TN, 31-year-old. She sells various snacks at Kofar wamabai with the financing of # 1,000,000 and she has received financing for 1 year from BMT
- 16) Mr. SB, 38 years old, sells coconuts at Kofar wamabai with the financing of # 1,000,000 and he has received financing for 1 year from BMT.
- 17) Mr. FD, 35 years old, trades groceries in Kofar wamabai with the financing of # 2,000,000 and he has received financing for 2 years from BMT.
- 18) Mrs. SU, 48 years old, sells spices around Kofar wamabai with the financing of # 2,000,000 and she has received financing for years from BMT.
- 19) Mrs. WN, age 51, sells spices with the financing of # 2,000,000 for 8 years from BMT.

### DISCUSSION OF FINDINGS

This study has conducted on entrepreneurs in two BMTs in Kano State. Researchers have found that several factors that led to the effectiveness of *musharakah* financing on the development of micro and small businesses from the perspective of the micro and small entrepreneur.

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***Understanding Musharakah Financing Agreement***

All entrepreneurs who received funding from two BMTs who are the informants in this study said they did not understand the contract used in the financing. They only understand that the financing provided to them are the *sharia* agreements and are free of interest. As conveyed by 33-year-old mother who sells sea fish in Abubakar rimi market with funding of # 2,000,000 has been financing for 8 years from BMT BIF.

*"I have been told what marketing contracts or agreements are used, but I don't know what exactly the contracts are. I have received funding for 8 years now and there has never been a problem with the contract, everything went smoothly."*

***BMT Financing is Very Helpful for Micro-Small Enterprises***

Small scale enterprises that received funding from the two BMTs all felt that have been helped by the financing received for the same reason, which has helped them in terms of capital. Funding obtained by entrepreneurs is used for business needs only. But some entrepreneurs used the money for other purposes. Mr. JN, Mr. TM, Ms. ER, and Ms. SK stated that the funding obtained was used for both business and household needs. When asked the reason why the financing was used for household needs, Mr. JN revealed that sometimes it requires more funds to finance households especially when the sales are slow. Mrs. SK also revealed that she used the money when she was in difficulties. Otherwise, she solely used the money for business purposes only.

*"Not just making capital, sometimes it is borrowed to pay for children's school fees, especially when the sale is so slow then it is used to pay for basic things. However, I will pay back and buy the merchandise afterward."*

***The Financing provided is following Small scale enterprises Needs***

The financing provided by BMT has been adjusted to the needs of entrepreneurs and the ability of entrepreneurs to pay. All entrepreneurs stated that the financing obtained was sufficient for their business needs. But there are a few entrepreneurs, namely Mrs. SP, Mrs. ER, Mrs. AG, Mrs. SL, Mr. FD, Mr. SB, Mrs. SU, stating that the funds received were insufficient for business needs. When asked why these entrepreneurs felt inadequate with the financing provided by BMT, one of the entrepreneurs, Mr. FD who is 35 years old, traded groceries in Kofar wamabai with the financing of # 2,000,000 and have received financing for 2 years explained the reason:

*"I got this BMT loan, Alhamdulillah, I can add to venture to the capital. I know this is a small amount of capital to sell the basic needs of various items, but buyers will be happy if there is diversification in goods sold. So I need to use my capital too. It would be better if BMT can increase the capital and also provide guidance so that sellers like me does not experience losses."*

***Musharakah Instalment Payments for Financing***

Payment of instalment financing is considered not burdensome for these entrepreneurs. Almost all informants that were asked said that there was no difficulty in paying the instalments. The average entrepreneur makes instalments of #20,000.00-#50,000.00 per day. With such a large instalment the entrepreneur does not feel burdened because it has previously been adjusted to the entrepreneur's ability to pay and the entrepreneur's business conditions in the field. Mr. BG explained the reason:

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*"The income from this business is not combined with my income outside of this business, because I am afraid to mix, because every day I have to pay instalments for BMT loans. The repayments are quite bearable, even though if the sales are lower, I can still pay later for several days. "*

### ***Reasons for Choosing Musharakah Financing in BMT***

Entrepreneurs choose to finance from BMT, of course, for different reasons. The majority of entrepreneurs choose to get finance from BMT because the financing is easy to obtain and the conditions are less complicated. However, several different entrepreneurs say that choosing BMT financing is due to the close distance between the entrepreneur's place of sale and the branch office and BMT head office, so entrepreneurs do not need to go far to get financing from BMT. Unlike the other reasons, there is one entrepreneur, Ms. SP, who thinks that the reason for choosing to finance from BMT is because the interest from the financing is low.

*"From the beginning in business, I used a private capital, a year later I got a loan from BMT when checking the place of my business it was recommended for me to make a record of merchandise and profits obtained. I choose to apply for capital in BMT because the installments were low, which is not the same if I borrow from loan sharks.*

### ***Making Business Financial Records***

Based on the results of the interviews with informants, all BMT entrepreneurs make simple financial records, especially entrepreneur accounts receivable records. Some informants make notes on purchases of merchandise and record the results of income per day and deduct expenses per day. In addition, several informants noted what items had to be purchased and at what price the items were purchased. This note is used to determine the selling price of goods is sold to its entrepreneurs.

*"Do not make a complete financial record only to record input every day, while checking the inventory of goods, later at the end of the month we need to buy merchandise again from the monthly sales money."*

When asked whether BMT had ever trained to make business finance training, some informants answered that they had, some said they had never and some said they forgot. However, almost all informants agreed that BMTs needed to provide business assistance and teach them to make financial records so that their businesses did not suffer losses.

*"The determination of the selling price was not difficult, I took advantage not much, for example, the price of a tea box containing twenty-five thousand, I sold the price per seed five thousand so fortunately per seed is one thousand naira. If the problem of profit and loss, yes I see from the results so that I can reduce spending later to find a loss or profit."*

With a simple calculation, the researcher found that the simple notes made by the informants were valuable records for the smooth running of his business.

### ***Business Development and Expansion***

Based on the results of the study, entrepreneurs who became informants in this study experienced business expansions and developments. The following explanations from the informants are summarized in the following Table:

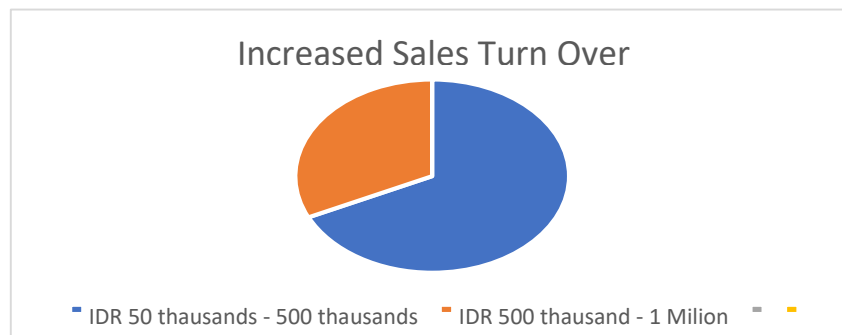
**Table 3. Respondent Data based on Business Development**

No.	Type of business development	Number
1.	Increase the amount of merchandise	6
2.	Adding new Products	7
3.	Adding new assets or equipment	6
	Total	19

Source: Field data (2023)

From Table IV, it can be seen that the informant uses the financing of *musharakah*, among others: to add merchandise and new product types by 36% with a total of seven people. In addition, some answered to add the new equipment or assets by 32% with a total of six people and the addition of these assets in the form of additional tools and means for trading. However, to increase the amount of merchandise, six people vote for it. The following are the results of an interview with SK, a vegetable seller:

*"After receiving funding from BMT, my business is now higher after I increase the merchandise of varied vegetables. I have never thought of venturing capital before because it is already sufficient with the funding obtained. Alhamdulillah, the important thing is that my business continues and there are profits to meet my needs. "*



**Fig. 3: Respondent Data Based on Increased Sales Turnover**

Source: Field data (2023)

Based on the chart above, it can be seen that the respondents experienced an increase in sales turnover. As many as 68% of respondents experienced a turnover of 68% or 50,000. - # 500,000 rupiah and 32% of respondents experienced a greater increase of 500,000 to 1,000,000 naira.

**CONCLUSION AND RECOMMENDATION**

Results from the findings can develop a conceptual framework that can be derived to give a general understanding of the effectiveness of *musharakah* financing for empowering micro-businesses from the perspective of an entrepreneur with a critical approach (Fig. 1). Based on an interview with BMT entrepreneurs in Kano State province, it can be concluded that *musharakah* financing in BMT is effective in empowering Micro and Small Enterprises (SMEs). Most respondents have increased their income after receiving *musharakah* financing, one of the products of the BMT.

Based on the research, some conclusions can be drawn as follows: first, the entrepreneurs do not quite understand the contract in Islamic financing, for MSEs the important financing is capital, free from usury and cheaper than instalments to moneylenders. Second, BMT financing for MSEs is very helpful in fulfilling business capital, although some entrepreneurs consider that their capitals are still insufficient to meet their business capital, third, MSEs tend to choose BMT for financing based on location close to the place of business and ease of accessing financing.



Fourth, the condition of MSEs before and after receiving funding from BMT has changed. After obtaining financing, UMK sales turnover increased from before. This happened because the capital for the business has become stable and the amount of merchandise inventory can be fulfilled and able to meet market demand, Fifth, BMT Financing is very effective in encouraging MSE empowerment, including entrepreneurs, who are being able to increase the amount of merchandise inventory, adding new types of products, expanding business premises, and adding new equipment for trading facilities. Thus, the business continuity of entrepreneurs will be more advance and eventually will improve the economy of MSEs. Thus, a conceptual framework is constructed to explain the effectiveness factors of *Musharakah* Micro-Financing.

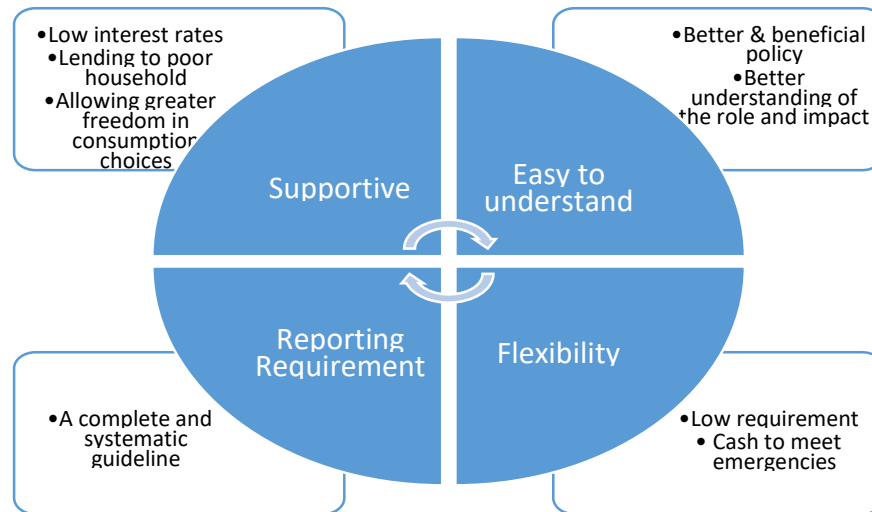


Fig. 4: The conceptual framework of the effective factors of *Musharakah* Micro-Financing

In the future, *musharakah* financing in BMT has the potential to contribute to the development of BMT and community economic empowerment because of the nature of the financing, which not only provides capital assistance but also provides business assistance for entrepreneurs. In addition, it reduces the dependence of small businesses on loan sharks, which are usury transactions and prohibited in Islam.

#### LIMITATION OF THE STUDY AND SUGGESTION FOR FUTURE RESEARCH

Some limitations of this study need to be highlighted. This study has been addressed to analyze the *musharakah* as a means of financing small scale enterprises in Kano State. This research contains several limitations, for example, this research is only limited to micro-business financing.

Though small and medium-sized businesses certainly play a role in financing *musharakah* in BMT. In addition, this research also only 'focuses' on the type of BMT, whereas in Islamic financial institutions there are also known Sharia People's Financing Banks and Sharia Commercial Banks, which of course also play a role in empowering micro, small and medium businesses. Both types of institutions are not involved at all in this research.

Although there is no guarantee that there will be significant differences if they are involved, their involvement will certainly improve what is found in this study. On this basis, the authors suggest that in the following research, it is better to expand, both types of informants, not only micro-business operators but also a small and medium entrepreneurs as well as other types of Islamic financial

institutions. It is no less interesting, of course, that in subsequent studies, quantitative methods are used to test the findings obtained in this qualitative study.

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