

Strengthening Community Economic Independence Through Malaysia Sharia Microfinance Institutions

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ABSTRACT

This research aims to investigate the role of sharia microfinance institutions in strengthening the economic independence of communities in Malaysia. The main focus of this research is to analyze the contribution of sharia microfinance institutions in increasing financial access for society, especially in the context of sharia economics. The research method used is descriptive analysis by collecting primary data through interviews and secondary data from related literature. It is hoped that the findings from this research will provide in-depth insight into how sharia microfinance institutions can be an effective instrument in building the economic independence of communities in Malaysia, as well as provide relevant policy recommendations to support the development of the sharia economic sector more broadly

Keywords: Sharia Microfinance, Institutions, Economic Independence Malaysia

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INTRODUCTION

Sharia microfinance institutions in Malaysia have an important role in overcoming the economic challenges faced by low-income communities. By prioritizing sharia principles, these institutions strive to provide fair and inclusive financial access, thus helping to increase the economic independence of society.¹

¹ Indrawan, B., Nurmita, N., Nengsih, T. A., Utami, W., Nasrudin, D., Tanti, T., Deliza, D., Ferawati, R., Syafitri, R., & Santoso, P. (2022). The Influence of Attitude and Need for Cognition on Student's Purchase

This research aims to understand how sharia microfinance institutions can improve economic welfare through providing financial services that comply with sharia principles. By providing financial products that not only comply with sharia rules but are also designed to meet community needs, these institutions can become effective instruments in poverty alleviation and community economic empowerment.²

In this context, it is important to examine more deeply the mechanisms and strategies implemented by sharia microfinance institutions to support economic independence. For example, how this institution manages risk, ensures sharia compliance, and provides financial education and training to beneficiaries. This research will also evaluate the impact of sharia financial services on increasing income, developing micro businesses, and family economic stability.

Thus, it is hoped that the results of this research can provide valuable insights for the development of better policies and practices in the sharia microfinance sector in Malaysia, as well as encouraging sustainable improvements in the economic welfare of low-income communities.

METHOD

This research was carried out in Seri Pulau with the aim of examining the role of sharia microfinance institutions in strengthening community economic independence. The research methods used include surveys and interviews, education and training, empowerment and mentoring, and field analysis.

a. Surveys and Interviews

1. Quantitative Survey

A quantitative survey was conducted using a structured questionnaire to collect data from the public regarding their understanding, attitudes and needs related to sharia microfinance services. This questionnaire was distributed to various community groups, including micro and small entrepreneurs and beneficiaries of sharia financial services. The data collected is analyzed statistically to identify patterns and trends.

2. Qualitative Interview

In-depth interviews were conducted with stakeholders, including community leaders, local entrepreneurs and beneficiaries. This interview aims to gain deeper insight into the experiences, perceptions and challenges faced by the community in accessing and utilizing sharia microfinance services. This method helps in understanding the local context and factors that influence the success or failure of the program.³

b. education and training

Intention Behavior on Halal Food: Schools Clustering Perspective. *Indonesian Journal of Halal Research*, 4(1), 26–34.

² Nengsih, T. A., Bertrand, F., Maumy-Bertrand, M., & Meyer, N. (2019). Determining the number of components in PLS regression on incomplete data set. *Statistical Applications in Genetics and Molecular Biology*, November.

³ Putra, D. . A., & Addiarrahman, A. (2023). Quranic Exegesis Journalism in Islamic Magazines in Indonesia Between 1970-1980. *Journal of Indonesian Islam* , 17 (2), 483.

1. Financial Literacy Training

Financial literacy training is held to increase public understanding of sharia financial principles and how to access sharia microfinance products and services. This training program includes material on personal financial management, the importance of saving, and wise use of financial services.

2. Small Business Workshop

Small business workshops are held for micro and small entrepreneurs, focusing on business management, marketing strategies and product development. This workshop is designed to improve participants' business skills and help them develop their businesses more efficiently and sustainably.⁴

c. Empowerment and Mentoring

1. Business Assistance

Business assistance is provided to micro and small entrepreneurs in developing their businesses. This program involves technical assistance, business consulting, and access to networks and resources that can help businesses grow and develop. This assistance focuses on increasing management capacity, marketing and product innovation.

2. Incubation Program

Incubation programs are established for micro and small businesses, providing intensive guidance and access to the resources necessary to develop the business. This program includes training, mentoring, and support for access to markets and business capital.⁵

d. Field Analysis

1. Identify Problems and Needs

SWOT Analysis: SWOT analysis is carried out to identify the strengths, weaknesses, opportunities and threats faced by sharia microfinance institutions in supporting the community's economic independence. This analysis helps in understanding the internal and external conditions that influence the operations of financial institutions.⁶

Economic Needs: Identification of the main needs of the community is carried out regarding financial access, business support and training. This process involves surveys and interviews with the community as well as analysis of local economic data.

2. Impact Assessment of Sharia Microfinance Institutions

Effectiveness Evaluation: Evaluation of the effectiveness of sharia microfinance institutions' programs and services is carried out to measure their impact in increasing the economic independence of the community. This evaluation includes

⁴ Rosmanidar, E., Ahsan, M., Al-Hadi, A. A., & Thi Minh Phuong, N. (2022). Is It Fair To Assess the Performance of Islamic Banks Based on the Conventional Bank Platform? *ULUL ALBAB Jurnal Studi Islam*, 23(1), 1–21.

⁵ Subekti, A., Tahir, M., Mursyid, & Nazori, M. (2022). the Effect of Investment, Government Expenditure, and Zakat on Job Opportunity With Economic Growth As Intervening Variables. *Journal of Southwest Jiaotong University*, 57(3), 102–112. <https://doi.org/10.35741/issn.0258-2724.57.3.9>

⁶ Sholihin, M., Shalihin, N., & Addiarrahman. (2023). the Scale of Muslims' Consumption Intelligence: a Maqāsid Insight. *ISRA International Journal of Islamic Finance*, 15(2), 98–118.

increasing income, access to basic services, and improving the quality of life of the community.⁷

RESULTS AND DISCUSSION

A. Program Implementation

The program to strengthen community economic independence through sharia microfinance institutions is implemented directly on Seri Island. This activity received a good response from seminar participants, showing that there is high interest and need for sharia financial services among the local community .

B. Program Results

The positive response from participants shows that this program has succeeded in attracting attention and providing an initial understanding of the importance of sharia finance in supporting economic independence. Seminar participants showed enthusiasm for the material presented, which included sharia financial principles and how to access sharia microfinance services. This indicates that people are starting to understand and accept the concept of Islamic finance as a reliable alternative.

C. Program Barriers

1. Lack of Financial Literacy:

Limited Knowledge: Many members of society still have limited understanding of the principles of Islamic finance and how to utilize them. This hinders their ability to make informed financial decisions and optimize the benefits of Islamic financial products.

Unequal Education: Financial education programs often do not reach all segments of society, especially in remote areas. As a result, there is an inequality in the level of financial literacy between urban and rural communities.

2. Accessibility and Infrastructure:

Limited Access: Remote areas are often difficult for sharia microfinance institutions to reach due to inadequate infrastructure. This makes it difficult for people in these areas to access the financial services they need.

Technology Limitations: Not all people have access to the technology needed to utilize digital financial services. This is especially true in areas with limited technological infrastructure.

3. Capital and Resource Limitations:

Limited Funding: Islamic microfinance institutions often face difficulties in accessing adequate funding to meet community needs. These limitations limit their ability to expand services and reach more people.

Human Resources: The limited number of experts who understand sharia finance is also an obstacle in providing quality services. Training and

⁷ Subekti, A., Tahir, M., Mursyid, & Nazori, M. (2022). the Effect of Investment, Government Expenditure, and Zakat on Job Opportunity With Economic Growth As Intervening Variables. *Journal of Southwest Jiaotong University*, 57(3), 102–112.

capacity development for financial institution staff is very important to improve service quality.⁸

4. Culture and Community Perception:

Negative Perception: The existence of negative perceptions or distrust towards sharia microfinance institutions can reduce community participation. This factor is often caused by a lack of understanding or bad experiences in the past.

Social Norms: Some social and cultural norms may not support full participation in Islamic microfinance programs. For example, norms that limit women's role in family financial decisions.⁹

5. Macroeconomic Challenges:

Economic Instability: Macroeconomic instability can affect the ability of Islamic microfinance institutions to provide services. Sharp economic fluctuations can reduce public confidence in the stability and sustainability of these institutions.

CONCLUSION

Sharia microfinance institutions in Malaysia play a crucial role in strengthening the economic independence of society. Based on the analysis that has been carried out, the following are the main conclusions regarding the impact and effectiveness of this program:

1. Increased Income and Economic Empowerment:

Sharia microfinance institutions provide easier access to financing and comply with sharia principles for low-income communities. This helps increase income and economic empowerment of communities by providing them with the capital needed to start or develop businesses.

2. Access to Financial Services:

The sharia microfinance program has succeeded in increasing community access to financial services, including savings, financing and sharia insurance. This is very important for communities previously underserved by conventional financial institutions, thereby expanding financial inclusion.

3. Improved Financial Literacy:

Through various education and training programs, public financial literacy regarding sharia financial principles has increased. People become more aware of how to manage their finances in accordance with sharia values, which in turn increases their economic independence.

4. Empowerment of Micro and Small Enterprises:

⁸ Usdeldi, U., Nasir, M.R., & Ahsan, M. (2022). The Mediate Effect of Sharia Compliance on the Performance of Islamic Banking in Indonesia. *Journal of Finance and Banking*, 26 (1), 247–264

⁹ Nengsih, T. A., Abduh, M., Ladini, U., & Mubarak, F. (2023). The Impact of Islamic Financial Development, GDP, and Population on Environmental Quality in Indonesia. *International Journal of Energy Economics and Policy*, 13(1), 7–13.

Mentoring and incubation programs provided by sharia microfinance institutions help micro and small businesses to grow and develop. This includes technical assistance, consulting, as well as access to the resources needed to strengthen the capacity of small businesses to face market challenges.¹⁰

5. Innovative Product and Service Development: Sharia microfinance institutions continue to develop and implement innovative products and services, in line with the needs of local communities. This includes digital financial products that make it easier to access services in remote areas, expanding the reach and impact of the program.

6. Challenges and Obstacles:

Although this program provides many benefits, there are several obstacles faced, including lack of financial literacy, limited access in remote areas, limited capital and resources, and negative perceptions of sharia microfinance institutions. These obstacles need to be overcome through appropriate strategies so that the program can run more effectively.

Overall, sharia microfinance institutions in Malaysia have shown great potential in supporting the economic independence of society. By overcoming existing obstacles and continuing to improve accessibility and financial literacy, this institution can play a more significant role in sharia economic development in Malaysia. This potential provides hope for more inclusive and sustainable economic development in the future



¹⁰ Rafidah, R. (2023). Indonesian Islamic bank return on assets analysis: Moderating effect of musyarakah financing. *Al-Uqud: Journal of Islamic Economics*, 7(2), 200–216.

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