

**MUSHARAKAH AS AN ALTERNATIVE ISLAMIC  
FINANCING:  
AN EXPLORATORY STUDY FOR SMALL BUSINESS  
FINANCING IN BANK MUAMALAT MALAYSIA BERHAD**

**BY**

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## ABSTRACT

Demand for Islamic product is very impressive. Competition among the Banks that offer Islamic financing product is increasing. It is very important for the Bank to offer competitive products in order to gain the market share. As for BMMB, it is very important for the Bank to offer products that are approved by Shariah. The products such as Musharakah financing should be widely implemented instead of other debt financing products. This study was conducted to identify the understanding and acceptance level of BMMB's staff towards the Musharakah financing to finance SME. A comprehensive analysis was conducted which involve the staff of BMMB. The study revealed that the understanding and acceptance level of BMMB's staff was very impressive. The study was also conducted to analyze whether profile factors such as age, gender, position, experience in Islamic Banking and education level have direct relationship and influence the understanding and implementation level of BMMB's staff towards Musharakah financing. Lastly this study proved that BMMB's staff is ready to implement Musharakah financing if they are given a chance.

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## ABBREVIATIONS

<b>BBA</b>	Bai Bithaman Ajil
<b>BMMB</b>	Bank Muamalat Malaysia Berhad
<b>CCR</b>	Capital Contribution Ratio
<b>M cash</b>	Muamalat Cash Line
<b>PLS</b>	Profit loss sharing
<b>PSR</b>	Profit Sharing Ratio

# CHAPTER 1: INTRODUCTION

## 1.1 Overview

Small medium enterprises (SMEs) have become a major player in the economic growth of the country and play an important role in the country's overall production network. It manages to diversify the economic activity and to create better employment opportunities. The industry forms a fundamental part of the economy, comprising over 98% of total establishments and contributing to over 65% of employment as well as over 50% of the gross domestic product. (Bank Negara Malaysia). The industry is fully supported by the government through the special schemes of financing facilities. Most of the financing is however based on the interest bearing system.

The major problem facing by the small medium enterprise is to get financing for the working capital to run the business. Most of the commercial banks are reluctant to grant banking facilities to the industry especially for a new business. The lending institutions restrict their lending to the larger and less risky clients, effectively excluding small medium enterprises from the market. In particular, entrepreneurs who are starting businesses for the first time, constituting the highest risk, are the least funded. To mitigate the risk the entrepreneur has to provide the collateral in form of cash margin or fixed assets, which the value must be acceptable to the lending institutions.