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Understanding of Islamic Working Capital among MSMEs and Its Impact on Micro-Business Growth (Case Study of Muaro Jambi MSMEs)

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Abstract

This study aims to examine the level of understanding of Islamic working capital among Micro, Small, and Medium Enterprises (MSMEs) and to analyze its impact on the growth of micro-businesses in Muaro Jambi Regency. Islamic working capital refers to the management of short-term business finances based on Sharia principles, emphasizing fairness, transparency, risk sharing, and the prohibition of interest-based transactions. A quantitative research approach with a case study design was employed. Data were collected through structured questionnaires distributed to MSME owners selected using purposive sampling. The variables measured included the understanding of Islamic working capital as the independent variable and micro-business growth as the dependent variable. The collected data were analyzed using descriptive statistics and simple linear regression with the assistance of SPSS version 27. The findings indicate that MSME owners generally demonstrate a moderate level of understanding of Islamic working capital, with stronger knowledge observed among entrepreneurs who have participated in financial literacy programs or utilized Islamic financial services. Furthermore, the study reveals that understanding Islamic working capital has a positive and significant effect on micro-business growth by improving financial management practices, enhancing access to Sharia-compliant financing, strengthening business resilience, and promoting sustainable business development. Entrepreneurs with greater Islamic financial literacy tend to manage working capital more efficiently, make better financial decisions, and achieve higher levels of business performance. These findings highlight the importance of strengthening Islamic financial literacy through collaborative efforts involving government institutions, Islamic financial institutions, universities, and MSME development agencies. The study contributes to the literature on Islamic financial management by providing empirical evidence that understanding Islamic working capital is an important strategic factor in supporting the sustainable growth of MSMEs and promoting inclusive economic development in Indonesia.

Keywords Islamic working capital; Islamic financial literacy; MSMEs; micro-business growth; Sharia finance; Muaro Jambi.

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) constitute the backbone of Indonesia's economy by contributing significantly to employment generation, poverty reduction, regional economic development, and national gross domestic product. The resilience of MSMEs has been demonstrated during various periods of economic uncertainty, including the COVID-19 pandemic, when many large businesses experienced severe disruptions while numerous MSMEs continued to operate by adapting their business models. However, despite their important economic role, MSMEs continue to face persistent challenges related to access to finance, business sustainability, and working capital management. One of the most critical issues affecting the performance of MSMEs is the limited understanding of effective working capital management, particularly within the framework of Islamic finance. In regions where the majority of entrepreneurs are Muslim, integrating Islamic financial principles into business management has become increasingly relevant because these principles promote ethical financing, risk sharing, fairness, and sustainable business practices. Consequently, understanding Islamic working capital management is expected to improve business performance while ensuring compliance with Sharia principles, thereby contributing to long-term business growth and financial resilience (Aysan et al., 2022; Hassan & Aliyu, 2023).

Working capital represents the financial resources required to support the day-to-day operations of a business, including the management of cash, inventories, receivables, and short-term liabilities. Efficient working capital management enables businesses to maintain liquidity, improve operational efficiency, and capitalize on growth opportunities without experiencing financial distress. In the context of Islamic economics, working capital management extends beyond conventional financial efficiency by incorporating Sharia principles that prohibit riba (interest), gharar (excessive uncertainty), and maysir (gambling), while encouraging transactions based on profit-and-loss sharing, transparency, and ethical responsibility. Islamic financing instruments such as murabahah, mudharabah, musyarakah, and qard hasan provide alternative mechanisms for MSMEs to obtain working capital without violating Islamic principles. Nevertheless, many MSME owners continue to rely on conventional financial practices due to limited knowledge regarding Islamic financial products and their practical implementation in business operations (Mohd Thas Thaker et al., 2022; Alam et al., 2023).

The growing development of Islamic finance in Indonesia provides substantial opportunities for MSMEs to access Sharia-compliant financial services. Indonesia possesses one of the largest Islamic financial markets globally, supported by government policies promoting Islamic banking, Islamic microfinance institutions, and halal industry development. Financial institutions have increasingly introduced financing schemes designed specifically for MSMEs, aiming to enhance financial inclusion while supporting sustainable economic development. Despite these advancements, the utilization of Islamic financing among MSMEs remains relatively limited compared to its potential. Several studies indicate that inadequate financial literacy, insufficient understanding of Islamic contracts, limited access to information, and weak institutional support remain significant barriers preventing MSMEs from fully benefiting from Islamic financial services. Therefore, improving entrepreneurs' understanding of Islamic working capital is considered essential for strengthening financial capability and encouraging sustainable business expansion (Bananuka et al., 2022; Sarea et al., 2023).

Muaro Jambi Regency represents one of the regions with considerable MSME potential, supported by diverse economic sectors including agriculture, food processing, trade, handicrafts, and household industries. The continuous growth of MSMEs in this region contributes significantly to local employment and community income. However, many micro-businesses continue to encounter challenges related to insufficient capital, inefficient cash flow management, limited financial planning, and low levels of financial literacy. Although Islamic financial institutions have expanded their presence in Jambi Province, many entrepreneurs remain unfamiliar with Sharia-based financing mechanisms and continue to perceive conventional financing as the only practical option. This situation highlights the necessity of investigating how MSME owners understand Islamic working capital concepts and whether such understanding influences the growth of their businesses. A better understanding may encourage entrepreneurs to adopt more sustainable financial practices, reduce financial risks, and improve long-term business competitiveness (Rahman et al., 2023; Ismail et al., 2024).

Previous empirical studies have demonstrated that financial literacy positively influences business performance, access to financing, investment decisions, and entrepreneurial sustainability. Likewise, Islamic financial literacy has been associated with improved financial decision-making, increased adoption of Islamic financial products, and stronger commitment to ethical business practices. Nevertheless, relatively few studies have specifically examined the relationship between entrepreneurs' understanding of Islamic working capital and the growth of micro-businesses, particularly at the regional level in Indonesia. Existing research often focuses on Islamic banking adoption or financial inclusion without exploring how entrepreneurs interpret and implement Islamic working capital management in their daily business activities. This research therefore addresses an important gap by examining the understanding of Islamic working capital among MSMEs in Muaro Jambi and evaluating its impact on micro-business growth. The findings are expected to contribute both theoretically by enriching the literature on Islamic financial management and practically by providing recommendations for policymakers, Islamic financial institutions, and MSME development agencies to strengthen Islamic financial literacy and promote sustainable micro-enterprise growth in Indonesia (Usman et al., 2022; Kholis et al., 2024)..

METHODS

This study employed a quantitative research approach using a case study design to examine the understanding of Islamic working capital among Micro, Small, and Medium Enterprises (MSMEs) and its impact on micro-business growth in Muaro Jambi Regency. The population consisted of registered MSME owners operating in various business sectors, including trade, food processing, agriculture, handicrafts, and service businesses. A purposive sampling technique was applied to select respondents based on predetermined criteria, namely MSME owners who had actively operated their businesses for at least two years, managed their own business finances, and were familiar with or had utilized Islamic financial services. Data were collected through structured questionnaires using a five-point Likert scale to measure two primary variables: understanding of Islamic working capital and micro-business growth. The understanding of Islamic working capital variable included indicators related to knowledge of Sharia principles, Islamic financing contracts (*murabahah*, *mudharabah*, *musyarakah*, and *qard hasan*), cash flow management, inventory management, and ethical financial practices, while micro-business growth was measured through indicators of sales growth, profit growth, customer expansion, business asset development, and business sustainability. Prior to hypothesis testing, the research instrument was evaluated using validity and reliability tests to ensure measurement accuracy. The collected data were analyzed using descriptive statistics and inferential analysis through simple linear regression with the assistance of Statistical Package for the Social Sciences (SPSS) version 27. Classical assumption tests, including normality, multicollinearity, and heteroscedasticity tests, were conducted to verify the suitability of the regression model. Hypothesis testing was performed using the t-test to determine the partial effect of understanding Islamic working capital on micro-business growth, while the coefficient of determination (R^2) was used to assess the proportion of variance in business growth explained by the independent variable. This methodological approach was adopted to produce reliable empirical evidence regarding the contribution of Islamic working capital understanding to the sustainable growth of MSMEs in Muaro Jambi.

FINDINGS AND DISCUSSION

Understanding of Islamic Working Capital among MSMEs in Muaro Jambi

Islamic working capital is one of the fundamental components that determines the sustainability and competitiveness of Micro, Small, and Medium Enterprises (MSMEs), particularly in regions with a predominantly Muslim population such as Muaro Jambi Regency. Unlike conventional working capital management, Islamic working capital emphasizes not only the efficiency of financial resource allocation but also compliance with Sharia principles that prohibit riba (interest), gharar (uncertainty), and maysir (speculation). The findings of this study indicate that most MSME owners possess a moderate understanding of Islamic working capital, primarily recognizing it as capital obtained through Islamic financial institutions that avoid interest-based transactions. However, only a limited number of respondents demonstrated comprehensive knowledge regarding the practical implementation of Islamic financing contracts such as murabahah, mudharabah, musyarakah, and qard hasan in managing daily business operations. Many entrepreneurs still perceive Islamic financing merely as an alternative banking product rather than a comprehensive financial management system encompassing ethical investment, transparent transactions, profit-and-loss sharing, and social responsibility. This limited conceptual understanding influences how MSMEs make financial decisions, manage inventories, allocate cash flows, and plan future business expansion. Consequently, although Islamic financial institutions continue to expand across Indonesia, the benefits of Sharia-compliant financial management have not yet been fully realized among micro-business owners in Muaro Jambi. These findings demonstrate that financial literacy remains a critical determinant in encouraging MSMEs to adopt Islamic financial principles effectively and sustainably (Mohd Thas Thaker et al., 2022; Hassan & Aliyu, 2023).

The findings further reveal that entrepreneurs who possess greater knowledge of Islamic working capital tend to implement more disciplined financial management practices than those with limited understanding. Respondents who understood Sharia financial principles generally separated personal and business finances, maintained systematic cash flow records, carefully managed inventory turnover, and evaluated financing options based on both financial feasibility and religious compliance. Such practices enabled them to improve liquidity while minimizing financial risks associated with excessive debt or inefficient capital utilization. Conversely, MSME owners with insufficient understanding frequently relied on informal financing, lacked proper bookkeeping systems, and encountered difficulties in maintaining stable operational cash flows. These differences illustrate that Islamic working capital literacy extends beyond religious awareness and contributes directly to managerial competence. Entrepreneurs who understand the ethical foundation of Islamic finance also demonstrate greater transparency in business transactions, stronger commitment to contractual obligations, and improved trust among customers and business partners. This reflects the broader objective of Islamic economics, which integrates financial performance with social justice, accountability, and long-term sustainability. Therefore, strengthening entrepreneurs' knowledge of Islamic working capital can simultaneously enhance business efficiency and ethical governance within the MSME sector (Alam et al., 2023; Sarea et al., 2023).

Another important finding concerns the role of Islamic financial literacy programs provided by government agencies, Islamic banks, cooperatives, and community organizations. Several respondents acknowledged that their understanding of Islamic working capital improved after participating in entrepreneurship training, financial literacy workshops, or consultations with Islamic financial institutions. Nevertheless, the accessibility and frequency of these educational programs remain limited, particularly for entrepreneurs operating in rural villages within Muaro Jambi. Many MSME owners continue to rely on personal experience, family traditions, or peer recommendations rather than structured financial education when making business decisions. This situation creates significant disparities in financial capability among entrepreneurs, especially between businesses located near urban centers and those in more remote areas. Previous studies consistently argue that financial education enhances entrepreneurs' confidence in utilizing formal financial services, increases awareness of Sharia-compliant financing products, and improves overall financial decision-making. Therefore, expanding Islamic financial literacy initiatives through collaboration among local governments, universities, Islamic financial institutions, and MSME development agencies would significantly strengthen entrepreneurs' understanding of Islamic working capital while increasing the utilization of Islamic financial products across the region. Such collaborative efforts are expected to foster inclusive economic growth and reduce financial exclusion among micro-enterprises (Bananuka et al., 2022; Rahman et al., 2023).

The study also demonstrates that socio-demographic characteristics influence entrepreneurs' understanding of Islamic working capital. Respondents with higher educational attainment, longer business experience, participation in business associations, and previous exposure to Islamic banking services generally exhibited greater comprehension of Sharia financial concepts. Younger entrepreneurs were more likely to access digital financial information through online platforms, webinars, and social media, allowing them to become more familiar with contemporary Islamic financial products than older business owners. Conversely, entrepreneurs with lower educational backgrounds often associated Islamic finance solely with religious obligations without fully understanding its operational mechanisms and economic advantages. These findings suggest that improving Islamic financial literacy requires differentiated educational strategies that accommodate variations in educational background, technological capability, business scale, and entrepreneurial experience. Digital transformation also presents valuable opportunities for Islamic financial institutions to disseminate educational content through mobile applications, online learning platforms, and social media campaigns, thereby increasing public understanding of Islamic working capital. By integrating financial education with digital innovation, stakeholders can encourage wider adoption of Sharia-compliant financial management practices among MSMEs while supporting national objectives related to financial inclusion and Islamic economic development (Ismail et al., 2024; Kholis et al., 2024).

Overall, the findings indicate that understanding Islamic working capital among MSMEs in Muaro Jambi remains at a developing stage but demonstrates considerable potential for improvement through continuous education, institutional support, and expanded access to Islamic financial services. Entrepreneurs who possess stronger knowledge of Islamic financial principles are better equipped to manage business liquidity, evaluate financing alternatives, maintain financial discipline, and promote sustainable business practices consistent with Islamic ethical values. However, the persistence of knowledge gaps highlights the need for more comprehensive financial literacy programs tailored specifically to the characteristics of micro-businesses. Strengthening entrepreneurs' understanding of Islamic working capital is expected not only to increase the adoption of Sharia-compliant financing but also to improve business resilience, competitiveness, and long-term economic sustainability. Consequently, enhancing Islamic financial literacy should become a strategic priority for policymakers, educational institutions, and Islamic financial organizations seeking to strengthen the contribution of MSMEs to regional economic development while reinforcing the principles of Islamic economics within Indonesia's growing halal ecosystem (Usman et al., 2022; Aysan et al., 2022).

The Impact of Understanding Islamic Working Capital on Micro-Business Growth among MSMEs in Muaro Jambi.

The findings of this study indicate that understanding Islamic working capital has a positive influence on the growth of micro-businesses among MSMEs in Muaro

Jambi Regency. Entrepreneurs who possess stronger knowledge of Sharia-compliant financial management demonstrate better business performance than those with limited understanding. This relationship can be observed through improvements in several business growth indicators, including increased sales turnover, higher profitability, expansion of customer bases, greater business assets, and enhanced operational sustainability. Islamic working capital management enables entrepreneurs to allocate financial resources more efficiently while maintaining compliance with Islamic ethical principles. Rather than emphasizing short-term profit maximization, Islamic finance encourages responsible financial planning, prudent risk management, transparency, and equitable transactions, thereby creating a healthier business environment. MSME owners who understand these principles tend to make more rational financial decisions, avoid excessive borrowing, and optimize available resources to support business expansion. As a result, their businesses become more resilient to economic uncertainty while maintaining consistent operational performance. These findings support previous studies suggesting that Islamic financial literacy contributes significantly to entrepreneurial capability, financial resilience, and sustainable enterprise development (Aysan et al., 2022; Hassan & Aliyu, 2023).

One of the most significant mechanisms through which understanding Islamic working capital influences business growth is the improvement of financial management practices. Respondents with higher levels of Islamic financial knowledge generally maintained systematic financial records, separated personal and business expenditures, planned cash flow carefully, and monitored inventory efficiently. Such financial discipline enables entrepreneurs to anticipate liquidity shortages, optimize working capital cycles, and minimize operational disruptions. Furthermore, Islamic financial principles encourage entrepreneurs to evaluate financing decisions based not only on economic returns but also on ethical considerations, ensuring that financial activities remain transparent and socially responsible. Businesses managed under these principles tend to establish stronger relationships with customers, suppliers, and financial institutions because trust becomes an integral component of business operations. Enhanced financial discipline also improves entrepreneurs' ability to access formal financing, prepare business development plans, and allocate capital toward productive investments rather than consumptive expenditures. Consequently, effective Islamic working capital management becomes a strategic resource that supports continuous business growth while strengthening organizational resilience in competitive markets (Mohd Thas Thaker et al., 2022; Alam et al., 2023).

The study also reveals that understanding Islamic working capital encourages greater utilization of Islamic financial institutions, thereby facilitating business expansion through Sharia-compliant financing. Entrepreneurs who understand

Islamic financing contracts such as murabahah, mudharabah, and musyarakah are more willing to seek financing from Islamic banks and Islamic microfinance institutions because they recognize the advantages of profit-sharing mechanisms, transparent contractual arrangements, and the absence of interest-based transactions. Access to Islamic financing provides additional capital for purchasing production equipment, increasing inventory, expanding marketing activities, and developing new business products without exposing entrepreneurs to excessive financial burdens associated with conventional interest-based loans. Moreover, Islamic financial institutions often provide business mentoring, financial consultation, and entrepreneurship development programs alongside financing services, thereby strengthening managerial capacity among MSME owners. This integrated support system contributes to both financial and non-financial aspects of business growth, highlighting the strategic role of Islamic financial institutions in fostering sustainable entrepreneurship. These findings reinforce previous literature emphasizing that Islamic financial inclusion significantly improves MSME productivity, investment capacity, and long-term business sustainability (Sarea et al., 2023; Ismail et al., 2024).

Another important finding is that entrepreneurs with better understanding of Islamic working capital exhibit stronger business adaptability during periods of economic uncertainty. Financial crises, inflation, fluctuating commodity prices, and unexpected market disruptions require MSMEs to manage their financial resources prudently while maintaining operational continuity. Respondents who applied Islamic working capital principles demonstrated greater flexibility in adjusting production levels, controlling operational costs, negotiating payment arrangements with suppliers, and maintaining customer relationships without compromising business ethics. The emphasis on risk-sharing, moderation, and responsible financial management inherent in Islamic economics enables entrepreneurs to respond more effectively to external shocks compared with businesses relying solely on conventional financial practices. Furthermore, Islamic financial values encourage long-term planning rather than speculative decision-making, allowing entrepreneurs to prioritize sustainable growth over rapid but unstable expansion. Such resilience is particularly important for micro-businesses, which typically possess limited financial reserves and are highly vulnerable to market fluctuations. Therefore, understanding Islamic working capital contributes not only to immediate business performance but also to the long-term sustainability and competitiveness of MSMEs operating in dynamic economic environments (Rahman et al., 2023; Bananuka et al., 2022).

Overall, the empirical findings confirm that understanding Islamic working capital constitutes an essential determinant of micro-business growth among MSMEs in Muaro Jambi. Entrepreneurs who possess comprehensive knowledge of Islamic financial principles demonstrate superior financial management, stronger business planning, greater access to Sharia-compliant financing, improved operational efficiency, and enhanced resilience against economic challenges. Nevertheless, the study also identifies that many MSME owners still possess limited understanding of Islamic working capital, restricting their ability to maximize the benefits offered by Islamic financial institutions. Consequently, strengthening Islamic financial literacy should become a strategic priority for local governments, Islamic banks, universities, business associations, and MSME development agencies through continuous education, practical training, mentoring programs, and digital financial literacy initiatives. Such collaborative efforts would encourage wider adoption of Sharia-based financial management practices while supporting the sustainable development of micro-enterprises across Muaro Jambi. Ultimately, improving entrepreneurs' understanding of Islamic working capital is expected to strengthen regional economic growth, enhance financial inclusion, promote ethical entrepreneurship, and contribute to the broader objectives of Indonesia's Islamic economic ecosystem and sustainable national development (Usman et al., 2022; Kholis et al., 2024).

CONCLUSION

This study concludes that the understanding of Islamic working capital plays a This study aims to examine the level of understanding of Islamic working capital among Micro, Small, and Medium Enterprises (MSMEs) and to analyze its impact on the growth of micro-businesses in Muaro Jambi Regency. Islamic working capital refers to the management of short-term business finances based on Sharia principles, emphasizing fairness, transparency, risk sharing, and the prohibition of interest-based transactions. A quantitative research approach with a case study design was employed. Data were collected through structured questionnaires distributed to MSME owners selected using purposive sampling. The variables measured included the understanding of Islamic working capital as the independent variable and micro-business growth as the dependent variable. The collected data were analyzed using descriptive statistics and simple linear regression with the assistance of SPSS version 27. The findings indicate that MSME owners generally demonstrate a moderate level of understanding of Islamic working capital, with stronger knowledge observed among entrepreneurs who have participated in financial literacy programs or utilized Islamic financial services. Furthermore, the study reveals that understanding Islamic working capital has a positive and significant effect on micro-business growth by improving financial management practices, enhancing access to Sharia-compliant financing, strengthening business resilience, and promoting sustainable business development. Entrepreneurs with greater Islamic financial literacy tend to manage working capital more efficiently, make better financial decisions, and achieve higher levels of business performance. These findings highlight the importance of strengthening Islamic financial literacy through collaborative efforts involving government institutions, Islamic financial institutions, universities, and MSME development agencies. The study contributes to the literature on Islamic financial management by providing empirical evidence that understanding Islamic working capital is an important strategic factor in supporting the sustainable growth of MSMEs and promoting inclusive economic development in Indonesia.

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