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THE ROLE OF THE ISLAMIC MICROFINANCE SYSTEM IN THE DEVELOPMENT OF SMALL AND FAMILY ENTREPRENEURSHIP

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Abstract: This article examines the role and importance of Islamic microfinance as an alternative tool for supporting small and family businesses. The traditional interest-based banking system imposes strict requirements on collateral and borrower creditworthiness, making it inaccessible to aspiring entrepreneurs and family-owned businesses.

Keywords: Islamic microfinance, small entrepreneurship, family business, risk sharing, inclusive economic growth.

Introduction. In today's context of global economic transformation, sustainable national economic growth directly depends on the level of development of small and family businesses. These business models are highly flexible, adaptable, and play a key role in generating employment, particularly in developing regions. However, traditional small business support tools often face barriers, the most significant of which is limited access to financial resources.

In this context, the introduction of alternative financial institutions is increasingly relevant, among which Islamic microfinance occupies a special place. Based on principles of fairness, risk-sharing, and partnership, Islamic microfinance has the potential to become a powerful catalyst for stimulating entrepreneurship and reducing poverty by engaging broad segments of the population in economic activity.

The Islamic economic model is fundamentally different from the Western financial paradigm. Its fundamental foundation is the categorical prohibition of usury—that is, the receipt of a guaranteed return in the form of interest on the capital provided. Instead, Islamic finance is based on the principle of profit-and-loss sharing, whereby the financier and the entrepreneur become full partners in the business. In the context of microfinance, this means that the microfinance organization invests in a project not for a fixed interest rate, but for a share in future profits.

Furthermore, Islamic finance eliminates elements of excessive uncertainty and speculation, requiring that each financial transaction be strictly tied to a real, tangible asset. This makes Islamic microfinance instruments socially oriented and resilient to macroeconomic shocks, preventing the formation of financial bubbles and debt bondage among vulnerable segments of the population.

To meet the needs of small and family businesses, the Islamic microfinance system has developed a wide range of specific instruments. Each is adapted to specific stages of business development and the nature of entrepreneurs' needs. One of the most popular instruments is murabaha, a trade agreement whereby a microfinance organization purchases goods, equipment, or raw materials needed by an entrepreneur from a third-party supplier and sells them to the borrower in installments at a pre-agreed markup. For family businesses needing, for example, sewing machines or mini-incubators, this mechanism is ideal, as it eliminates the need for cash loans with interest, providing targeted financial support without the risk of misuse of funds.

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Another important instrument is ijara, similar to traditional leasing. A microfinance organization purchases fixed assets and leases them to the entrepreneur. This allows small businesses to use modern, high-tech equipment without having to divert large sums from working capital for the initial purchase.

Salam, a transaction involving advance payment for future agricultural produce, is widely used to finance agriculture and small family farms. This enables farmers to obtain working capital to purchase seeds and fertilizers before the start of the season, guaranteeing fair prices for their harvest.

The development of family entrepreneurship has a distinct social dimension. Often, such businesses employ members of the same family, including women and youth, who may have limited access to the formal labor market. Traditional banks are reluctant to lend to such ventures due to the lack of liquid collateral and an official credit history. Islamic microfinance addresses this issue by changing borrower assessment criteria. Instead of strict scoring and collateral requirements, the viability of the business project itself, the entrepreneur's reputation, and their willingness to work hard are prioritized.

A key characteristic of family businesses is their strong integration into the local community. Islamic microfinance institutions, guided by the principles of ethical finance, contribute to strengthening social capital. Involving women in family businesses through microfinance mechanisms not only increases household income but also promotes children's education and well-being, as the income earned by women in family businesses is primarily invested in the development of the family's human potential. Thus, Islamic microfinance plays a crucial role in transforming a charitable mindset into an entrepreneurial one, helping low-income families transition from receiving social assistance to self-sufficiency and creating additional jobs.

The process of integrating Islamic microfinance services into the economic system requires a comprehensive approach. In countries where the traditional financial system is dominant, the primary task is to develop an adequate regulatory framework. It is necessary to clearly regulate the status of so-called Islamic windows within existing microfinance organizations, as well as define rules for the taxation of partnership financing transactions to avoid double taxation when reselling goods.

Conclusion In conclusion, it can be argued that the Islamic microfinance system represents not just an alternative source of funding, but a fully-fledged ethical and socially oriented model of economic development. Its implementation and scaling can have a powerful positive impact on the small and family business sector. By eliminating collateral barriers and replacing the burden of debt with partnerships, Islamic microfinance opens access to economic opportunities for the most vulnerable, yet proactive, segments of the population.

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