

Syaria Factoring: A Shariah-Compliant Trade Finance Solution for SMEs

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Abstract

This study investigates Syaria factoring as a shariah-compliant alternative to conventional factoring for small and medium enterprises (SMEs). Drawing from Islamic commercial jurisprudence and institutional finance, it constructs a conceptual model using wakalah, murabahah, and ijarah contracts to provide liquidity while maintaining shariah integrity. Unlike conventional factoring, which involves interest and risk transfer, Syaria factoring offers ethical, transparent, and risk-sharing mechanisms. Through qualitative documentary analysis, the research compares Syaria and conventional models, identifies operational structures, and evaluates its impact on SME financing and the Islamic finance sector. Findings confirm that Syaria factoring supports financial inclusion, aligns with maqasid al-shariah, and strengthens the Islamic finance ecosystem. The study concludes with policy and institutional recommendations to standardize, regulate, and promote Syaria factoring as a key ethical finance innovation. It contributes to bridging theoretical, practical, and regulatory gaps in Islamic financial product development.

Keywords: *Syaria factoring, Islamic trade finance, Shariah contracts, SME liquidity, ethical finance.*

INTRODUCTION

The evolution of global financial systems has opened diverse pathways for institutional innovation, including the development of instruments that adhere to religious and ethical values. In the Islamic financial context, the challenge remains to balance modern financial needs with strict adherence to shariah principles. One such area is factoring—an essential financial tool for businesses, especially SMEs, that require cash flow stability. However, traditional factoring involves interest-bearing transactions and elements of uncertainty, rendering it incompatible with Islamic jurisprudence (Usmani, 2002, pp. 131–133). The urgent need for sharia-compliant alternatives in working capital financing has thus sparked scholarly and practical interest in developing Syaria factoring models (Ayub, 2007, pp. 295–297).

Factoring provides immediate liquidity by allowing businesses to sell their receivables to third parties, commonly financial institutions. This tool is particularly relevant for SMEs that face delayed payments from clients yet need ongoing capital to sustain operations (Klapper, 2006). In a conventional system, such transactions typically include interest rates and transfer of credit risk, which contravene Islamic financial norms. Islamic financial institutions are thus tasked with developing instruments that meet business realities while upholding core Islamic values, particularly the prohibition of *riba*, *gharar*, and *maysir* (El-Gamal, 2006). The adaptation of Syaria factoring not only offers financial solutions to Muslim entrepreneurs but also strengthens the moral and ethical foundations of the Islamic economic ecosystem (Obaidullah & Khan, 2008, pp. 72–73).

Theoretically, Syaria factoring draws on contract structures such as wakalah (agency), murabahah (cost-plus financing), and ijarah (leasing) to replicate the benefits of conventional factoring without violating shariah. Several Islamic banks in Malaysia and the Middle East have begun

experimenting with these structures to enable invoice-based financing for SMEs (Dusuki & Abdullah, 2007). However, these models remain fragmented, lacking regulatory standardization and academic consensus. Most previous studies have focused on either the legal permissibility of factoring or its operational mechanics, with limited attention to integrative models that are commercially viable and jurisprudentially sound (Iqbal & Mirakhor, 2011). This research thus addresses a significant theoretical and empirical gap in Islamic finance literature.

In practice, the absence of standardized Syaria factoring models limits scalability and legal clarity for financial institutions, regulators, and business owners. This not only impedes access to ethical finance for SMEs but also reduces the potential impact of Islamic financial institutions in expanding financial inclusion (World Bank, 2015). Moreover, given the growing global interest in sustainable and ethical finance, Syaria factoring represents an opportunity for Islamic finance to showcase its potential as a value-based alternative. Therefore, understanding its structure, comparative advantage, and practical implications is imperative for scholars, practitioners, and policymakers alike (Kahf, 2003, pp. 154–156).

This study is guided by three central research questions. First, how can Syaria factoring be structured to meet both shariah principles and commercial viability? Second, what differentiates Syaria factoring from conventional factoring in terms of legal and operational frameworks? Third, what are the implications of Syaria factoring for SMEs and the broader Islamic financial system? The objective of this study is to construct a conceptual model of Syaria factoring that is both jurisprudentially valid and functionally effective, drawing on multidisciplinary sources including fiqh, finance, and institutional case studies. In doing so, it aims to provide a foundation for further research, product development, and policy design that will contribute to the advancement of Islamic financial instruments tailored to real economic needs.

LITERATURE REVIEW

The concept of Syaria factoring has received limited scholarly attention, despite its relevance to Islamic finance and SME development. Early literature focused primarily on the permissibility of trade finance instruments under Islamic law. Usmani (2002, pp. 102–105) emphasized the need to distinguish between debt trading (*bai al-dayn*), which is generally prohibited, and structured contracts that involve real assets and risk-sharing, which are allowed. Meanwhile, Ayub (2007, pp. 287–290) explored the various financing mechanisms permissible under Islamic law, arguing that any transaction must fulfill the criteria of transparency, mutual consent, and absence of *riba* and *gharar*. Within this framework, the idea of re-engineering conventional factoring through *wakalah* and *murabahah* gained traction. El-Gamal (2006) argued that Islamic finance could achieve functional equivalence to conventional instruments without replicating their unjust elements, by emphasizing ethical values embedded in shariah principles.

Several studies have addressed the operational mechanics of Islamic alternatives to factoring, particularly in Malaysia and the Gulf Cooperation Council (GCC) countries. Dusuki and Abdullah (2007) analyzed Islamic banking products in Malaysia, including emerging invoice discounting tools, highlighting how product structuring using *ijarah* and *wakalah* can offer compliant solutions to SMEs. Iqbal and Mirakhor (2011) positioned Syaria factoring as a vital tool in bridging the financing gap for underserved Muslim entrepreneurs. However, much of the existing literature remains conceptual or descriptive, with limited integration of theoretical and empirical insights. A recurring theme is the absence of a unified framework that outlines the practical, legal, and institutional mechanisms required to make Syaria factoring scalable and effective across jurisdictions (Obaidullah & Khan, 2008, pp. 88–90).

Recent policy-oriented reports, such as those by the Islamic Development Bank (IDB) and World Bank (2015), advocate for the development of Islamic trade finance tools as part of a broader effort to support inclusive economic development. These studies emphasize the necessity for institutional capacity building, legal standardization, and cross-sector collaboration to ensure that products like Syaria factoring are not only shariah-compliant but also economically impactful. While the academic literature provides strong normative and conceptual foundations, there remains a lack of integrative models that bridge classical fiqh, modern finance, and regulatory practice. This research seeks to fill this void by offering a structured analysis of Syaria factoring as both a theoretical construct and a practical financial solution.

Theoretical Framework

The theoretical underpinning of Syaria factoring lies in the broader principles of Islamic commercial jurisprudence (*fiqh al-mu'amalat*), which guide the design of all financial instruments in accordance with shariah. At its core, Syaria factoring rejects interest-bearing transactions and uncertainty, relying instead on trust-based and asset-backed contracts. One of the key theoretical bases is the contract of *wakalah* (agency), which allows one party to act on behalf of another in executing specific tasks (Ayub, 2007, pp. 219–221). In the context of Syaria factoring, the bank or financial institution may act as a *wakil* to manage receivables collection on behalf of the client. This structure ensures that the contractual relationship is based on mutual agency rather than debt trading, aligning with the Islamic legal maxim “*Al-wakil ka al-asl*”—the agent is like the principal (Kamali, 2008, pp. 143–144).

Another theoretical anchor is *murabahah*, a cost-plus-profit sales contract often used in Islamic trade financing. When applied to Syaria factoring, the institution may purchase the receivables at their nominal value, with a known profit margin agreed upon in advance. This contract satisfies the requirements of transparency and avoids ambiguity (*gharar*) by clearly stating the cost and profit (Usmani, 2002, pp. 72–74). However, the *murabahah* structure is contingent upon the receivables representing a tangible underlying asset, and the transaction must avoid deferred sale of debts, which remains a contentious issue in Islamic law (El-Gamal, 2006). Thus, the legitimacy of using *murabahah* within Syaria factoring depends on rigorous compliance with the conditions set by classical jurists and modern shariah advisory boards.

The principle of *ijarah* (leasing) also contributes to the structuring of Syaria factoring, particularly when factoring includes services such as invoice management or risk mitigation. In such cases, the financial institution may lease its collection services to the client for a fixed fee, separate from any receivables purchase. This model emphasizes service provision rather than interest-based lending, reinforcing the Islamic emphasis on fair compensation for effort and transparency in service delivery (Kahf, 2003, pp. 136–138). The inclusion of *ijarah* in Syaria factoring enhances flexibility and enables financial institutions to tailor services based on client needs while maintaining shariah compliance.

Risk-sharing and ethical considerations also form a central component of the theoretical framework. Unlike conventional factoring, which often involves risk transfer to the financial institution, Syaria factoring encourages a partnership-based approach where both parties share the risks and responsibilities (Iqbal & Mirakhor, 2011). This is consistent with the *maqasid al-shariah*, or higher objectives of Islamic law, which include the promotion of justice, prevention of exploitation, and facilitation of economic welfare (Chapra, 2000). The emphasis on ethical principles reinforces the distinct identity of Islamic financial products and their commitment to social responsibility.

Lastly, institutional theory provides insights into how Syaria factoring can be mainstreamed within the regulatory and financial ecosystem. According to North (1990), institutions consist of formal rules, informal norms, and enforcement mechanisms that shape economic behavior. In Islamic finance, regulatory institutions such as national shariah councils, central banks, and Islamic Financial Services Board (IFSB) play a crucial role in validating and standardizing instruments like Syaria factoring. Without institutional support and harmonized regulatory frameworks, the scalability and acceptance of Syaria factoring remain limited. Therefore, this research adopts a multi-theoretical lens—combining fiqh, contract theory, and institutional economics—to develop a robust conceptual foundation for Syaria factoring.

Previous Research

Early research into Islamic alternatives to conventional finance focused on the foundational principles of Islamic economics and their implications for commercial transactions. Chapra (2000) emphasized the need for ethical financial instruments that align with the objectives of shariah, especially in preventing exploitation and ensuring social justice. His work laid the groundwork for conceptualizing Islamic financial instruments such as murabahah and wakalah, which later became central to Syaria factoring models. Building on this, Usmani (2002) addressed the permissibility of trade-based instruments and highlighted the differences between legitimate asset-based transactions and interest-bearing debt sales. His jurisprudential analysis remains a cornerstone for understanding why conventional factoring poses a challenge within Islamic finance.

In 2003, Kahf expanded on the practical implementation of shariah-compliant financial products. He noted that tools like ijarah and wakalah could be effectively adapted for trade finance purposes, offering a theoretical basis for structuring factoring-like mechanisms. Kahf's insights were critical in demonstrating that modern finance needs could be addressed within Islamic parameters, provided that transparency and fairness were preserved (Kahf, 2003, pp. 142–145). This was followed by El-Gamal (2006), who critiqued the trend of “shariah arbitrage,” where Islamic instruments mimicked conventional ones without genuine adherence to Islamic ethics. He warned that Islamic finance should not merely replicate forms but must deliver ethical substance, a principle relevant to the Syaria factoring debate.

In 2007, Ayub published a comprehensive work on Islamic banking and finance, including an examination of trade-based financial structures. He offered operational insights into murabahah and wakalah, exploring their suitability for short-term financing like factoring (Ayub, 2007, pp. 287–294). Around the same time, Dusuki and Abdullah (2007) conducted empirical research on Malaysian Islamic banks, analyzing how product structuring techniques could enable invoice financing. Their study revealed that financial innovation was possible without violating shariah, though they also highlighted the lack of standardized regulatory frameworks for such instruments.

Iqbal and Mirakhor (2011) offered a broader macroeconomic perspective, arguing that Islamic financial instruments like Syaria factoring could contribute to inclusive economic growth if integrated effectively into financial systems. They emphasized the potential for SME empowerment and the reduction of poverty through ethical financing. However, they also noted the persistent challenge of aligning legal interpretations across jurisdictions. Obaidullah and Khan (2008, pp. 80–85) further examined Islamic microfinance tools and underscored the importance of adapting classical contracts for modern needs. They identified invoice-based financing as a promising but underdeveloped area.

By 2015, global institutions like the World Bank began emphasizing the importance of Islamic trade finance in development agendas. A joint report with the Islamic Development Bank (World Bank, 2015) called for strengthening institutional capacities, improving legal infrastructure, and encouraging financial inclusion through Islamic tools. The report specifically mentioned the potential of Islamic factoring but noted the lack of empirical studies and scalable models. Despite these contributions, significant gaps remain. First, few studies integrate fiqh, financial structuring, and regulatory perspectives into a unified model. Second, the empirical validation of Syaria factoring mechanisms remains limited. Third, while the theoretical legitimacy of the instrument is acknowledged, operational frameworks remain fragmented. This research addresses these gaps by synthesizing legal, financial, and institutional dimensions into a coherent conceptual model of Syaria factoring that is both compliant and scalable.

METHOD

The type of data used in this research is qualitative and conceptual in nature. It draws primarily on textual sources such as classical fiqh texts, modern interpretations of Islamic commercial law, scholarly journal articles, institutional reports, and regulatory documents. These sources enable an in-depth exploration of the normative foundations, legal structures, and operational mechanics of Syaria factoring. The qualitative data type is suitable for doctrinal research in Islamic finance, where legal validity and ethical alignment are central to financial innovation (Ayub, 2007, pp. 47–48; Kamali, 2008, pp. 102–104). The use of qualitative data also aligns with best practices in theory-building research, particularly where empirical application is still developing (Iqbal & Mirakhor, 2011).

The primary data sources for this study include verified international books, peer-reviewed journal articles, dissertations, and reports from reputable organizations such as the World Bank and Islamic Development Bank. These sources were selected based on their relevance, credibility, and compliance with Islamic financial norms. For instance, foundational Islamic finance books by authors such as Usmani (2002) and Chapra (2000) provide jurisprudential context, while journal articles and regulatory publications from institutions like Bank Negara Malaysia offer operational and policy perspectives. The triangulation of multiple data sources ensures that the conceptual model proposed in this study is grounded in both theory and practice.

The data collection technique employed is documentary analysis, which involves a systematic review and interpretation of texts related to Islamic commercial law, factoring practices, and institutional policies. This method is appropriate for examining normative content and regulatory trends across various jurisdictions (El-Gamal, 2006). The documentary analysis focuses on identifying thematic patterns, legal principles, and financial structures that inform the design of Syaria factoring. All documents were critically assessed to ensure they adhered to the publication cut-off requirement of 2018 and came from recognized academic or institutional sources.

Data analysis was conducted using thematic interpretation, a qualitative method that identifies recurring themes and relationships across different texts. This technique enabled the researcher to classify legal concepts, financial structures, and ethical considerations into coherent analytical categories. Thematic interpretation is particularly valuable in Islamic finance research, as it allows the integration of fiqh principles with financial structuring strategies (Kahf, 2003, pp. 122–123). Through this approach, the study identifies critical success factors for Syaria factoring, including contract integrity, transparency, and regulatory adaptability.

Conclusion drawing involved synthesizing insights from the thematic analysis to construct a conceptual framework for Syaria factoring. This synthesis emphasizes the intersection of shariah principles, financial innovation, and institutional readiness. The conclusions were validated

through cross-referencing multiple sources and ensuring internal consistency across legal, ethical, and economic dimensions (Chapra, 2000; Ayub, 2007, pp. 312–313). The resulting framework contributes to the literature by offering a practical and compliant model that can guide further research, policy formulation, and product development in Islamic finance.

RESULTS AND DISCUSSION

The integration of Syaria factoring into Islamic financial systems presents a unique opportunity to align commercial objectives with ethical imperatives. As established in the theoretical framework, Syaria factoring draws upon foundational contracts such as *wakalah*, *murabahah*, and *ijarah*, all of which emphasize transparency, fairness, and asset-backing. The review of previous research has shown that while the conceptual legitimacy of Syaria factoring is acknowledged, its operationalization remains underexplored and fragmented (Dusuki & Abdullah, 2007; Iqbal & Mirakhor, 2011). This research contributes by bridging the gap between normative theory and institutional application through a comprehensive, jurisprudentially grounded, and economically functional model of Syaria factoring.

Moreover, this study presents a critical advancement in understanding how Islamic financial institutions can innovate within the confines of shariah. Building upon institutional theory and Islamic economic ethics, it demonstrates that Syaria factoring can offer practical liquidity solutions to SMEs without compromising legal compliance or social responsibility. Unlike conventional factoring, which tends to prioritize financial returns, the Syaria model integrates *maqasid al-shariah* objectives such as economic justice, risk-sharing, and community empowerment (Chapra, 2000; Kahf, 2003, pp. 155–158). This dual-layered contribution—combining ethical substance with financial viability—positions Syaria factoring as a promising tool in the broader agenda of Islamic financial reform and inclusion.

1. Structuring Syaria Factoring: A Shariah-Compliant Framework

A key question that this study addresses is how Syaria factoring can be structured to fulfill both shariah principles and commercial viability. At the core of this structuring is the application of contracts that inherently comply with Islamic legal and ethical standards. Among these, *wakalah* plays a pivotal role as the principal agency relationship whereby a financial institution represents the seller in collecting payments from buyers (Ayub, 2007, pp. 219–221). This arrangement ensures that the financial institution does not purchase the debt but instead earns a fee for its services—thereby avoiding *riba* and *gharar*. Such an approach transforms the factoring model from debt trading to service provision, aligning with jurisprudential doctrines (Kamali, 2008, pp. 143–144).

In scenarios where the financial institution intends to purchase receivables, the structure may incorporate *murabahah* to facilitate a transparent cost-plus transaction. Here, the bank would buy the underlying asset from the client and resell it to the end buyer at an agreed profit margin, using the invoice value as a reference (Usmani, 2002, pp. 78–79). However, scholars have debated whether receivables themselves can be sold, particularly when they represent debts rather than tangible goods. Most schools of Islamic jurisprudence prohibit the sale of debts unless at face value, thus placing limitations on *murabahah* in pure factoring contexts (El-Gamal, 2006). As a result, combining *wakalah* and *murabahah* in hybrid models is often recommended to maintain compliance while enabling liquidity.

Another structural variant involves *ijarah*, where the financial institution provides collection and credit monitoring services in exchange for a fixed fee. This is particularly useful in non-

recourse factoring arrangements, where the bank does not assume the credit risk of the buyer. The *ijarah* contract reinforces transparency, as the fee must be agreed upon in advance and cannot fluctuate based on external factors such as payment delays (Kahf, 2003, pp. 140–142). This model positions the institution as a service provider rather than a creditor, ensuring that the factoring process does not devolve into a conventional interest-bearing transaction.

To manage risk and uphold the principle of mutual benefit (*maslahah*), Syaria factoring structures may include risk-sharing features through *mudarabah* or *musharakah*. While these contracts are less common in invoice financing due to complexity, they may serve in cases where the factoring institution and the SME jointly bear financial risks in exchange for profit participation. Iqbal and Mirakhor (2011) argue that incorporating risk-sharing contracts enhances ethical accountability and promotes financial resilience, particularly for SMEs vulnerable to payment fluctuations.

From a practical standpoint, the most viable models are hybrid structures that combine *wakalah* for collection, *ijarah* for service fees, and limited *murabahah* where permissible. These multi-contract approaches enable institutions to adapt to different legal environments and business needs without compromising shariah compliance (Dusuki & Abdullah, 2007). Moreover, integrating internal shariah audit mechanisms ensures that each contract's application adheres to legal principles while maintaining operational efficiency. This layered structuring not only improves financial access for SMEs but also enhances the credibility and competitiveness of Islamic financial products.

Furthermore, to ensure the scalability of Syaria factoring, regulatory harmonization is essential. Without clear legal definitions and standardized contract models, financial institutions may struggle to implement Syaria factoring consistently. Institutions such as the Islamic Financial Services Board (IFSB) and national shariah advisory councils play a critical role in validating and disseminating compliant structures (World Bank, 2015). By institutionalizing best practices and issuing guidelines, these bodies can create an enabling environment for Syaria factoring to flourish.

In summary, the structuring of Syaria factoring requires an integrative approach that balances legal compliance with business functionality. The use of *wakalah*, *murabahah*, and *ijarah* in carefully sequenced contracts enables financial institutions to provide halal liquidity solutions to SMEs while adhering to Islamic ethical principles. Such structuring represents a significant departure from debt-based finance and moves towards a model that embodies both economic pragmatism and spiritual accountability.

2. Comparative Dimensions: Syaria vs Conventional Factoring

This section explores what differentiates Syaria factoring from conventional factoring in terms of legal foundations, operational mechanics, and ethical orientation. At the core of this distinction is the compliance of Syaria factoring with Islamic legal principles, which prohibit *riba* (interest), *gharar* (excessive uncertainty), and *maysir* (speculation). In contrast, conventional factoring allows the sale of receivables—often with interest charges and without strict conditions on risk transfer—raising major concerns from a shariah perspective (El-Gamal, 2006). The prohibition of interest in Islamic law means that Syaria-compliant alternatives must avoid any form of time-based compensation on debt, differentiating Syaria factoring structurally and ethically from its conventional counterpart (Usmani, 2002, pp. 73–76).

From a legal standpoint, conventional factoring treats receivables as financial assets that can be bought and sold at discounted rates, with the factor often assuming the debtor's default risk. This sale is often underpinned by interest-bearing conditions or fee structures that fluctuate with market risk (Klapper, 2006). In contrast, Syaria factoring avoids debt trading by employing agency-based (*wakalah*) or lease-based (*ijarah*) models, where the factor acts on behalf of the seller without assuming ownership of the receivable. This maintains the principle of risk transparency and prevents the sale of intangible, unearned value, which classical jurists view as *gharar* (Ayub, 2007, pp. 297–298).

Operationally, conventional factoring often involves credit scoring, interest accruals, and complex default clauses that prioritize lender protection. Syaria factoring, by contrast, emphasizes risk-sharing and ethical service delivery. The use of fixed-fee structures in *ijarah* or agreed-upon commissions in *wakalah* ensures that financial institutions are compensated for their services without infringing on Islamic financial norms. Furthermore, Syaria factoring forbids hidden charges or manipulative terms that can exploit the financial vulnerability of SMEs—a key issue in many conventional factoring contracts (Kahf, 2003, pp. 149–150).

Another major distinction lies in the treatment of risk. In conventional factoring, institutions typically assume the risk of debtor default in return for higher fees or interest. In Syaria factoring, risk-sharing may occur, but only through explicitly defined partnerships such as *mudarabah* or *musharakah*. Even in limited non-recourse Syaria factoring, the financial institution does not earn interest on the deferred payment but recovers costs through permissible service fees or profit margins (Iqbal & Mirakhor, 2011). This shift from risk transfer to risk participation supports the broader Islamic economic goal of social justice and mutual accountability.

The ethical foundation of Syaria factoring also distinguishes it. It is not merely a structural alternative but an embodiment of Islamic financial ethics. While conventional factoring primarily seeks to optimize profit through financial engineering, Syaria factoring is framed within the objectives of *maqasid al-shariah*, which promote equitable access, fairness, and the preservation of wealth and trust (Chapra, 2000). This ethical orientation fosters trust between institutions and clients, making Islamic financial instruments more appealing to Muslim SMEs and values-driven businesses.

Furthermore, the governance and regulatory oversight of Syaria factoring involves shariah supervisory boards and religious councils that validate contract structures, something not present in conventional systems. These institutions ensure that product offerings align not only with business goals but also with religious values. This additional layer of compliance—though often seen as a hurdle—enhances product integrity and customer confidence in Islamic finance (Dusuki & Abdullah, 2007).

Ultimately, the comparative distinction lies not only in technical design but in philosophical orientation. Syaria factoring represents a reimagining of trade finance, one that refuses to separate financial mechanisms from moral purpose. Unlike conventional factoring, which commodifies debt, Syaria factoring repositions finance as a service grounded in trust, equity, and transparency. It replaces interest with ethical profit, and risk transfer with partnership—thereby offering a holistic and socially responsible financial tool.

3. Empowering SMEs and the Islamic Finance Ecosystem

This section addresses how Syaria factoring contributes to the empowerment of small and medium enterprises (SMEs) and strengthens the broader Islamic financial ecosystem. SMEs

in Muslim-majority countries often face challenges in accessing formal finance due to religious concerns, lack of collateral, and risk-averse banking practices (World Bank, 2015). Syaria factoring offers a solution that addresses these barriers by providing ethical, asset-backed, and flexible financing that aligns with Islamic principles. By focusing on receivable-based liquidity, Syaria factoring enables SMEs to sustain cash flow without resorting to interest-based loans, thereby preserving religious adherence while supporting operational continuity (Obaidullah & Khan, 2008, pp. 92–94).

The flexibility of Syaria factoring makes it suitable for SMEs across diverse sectors, including agriculture, manufacturing, and services. Through wakalah-based models, SMEs can outsource invoice collection to Islamic financial institutions, improving efficiency and reducing administrative burdens. The fixed-fee structures under *ijarah* also allow predictability in costs, which is crucial for small businesses managing tight budgets (Ayub, 2007, pp. 301–303). Furthermore, Syaria factoring does not require fixed collateral, making it accessible to startups and microenterprises that lack conventional credit assets. This enhances financial inclusion, a core objective of *maqasid al-shariah*, by extending halal financial access to underserved communities (Chapra, 2000).

Beyond SMEs, Syaria factoring positively impacts the Islamic finance industry by expanding its product offerings and customer base. Financial institutions that develop Shariah-compliant factoring services diversify their revenue streams while fulfilling social responsibility mandates. This diversification is strategically important in increasingly competitive markets where differentiation through ethical value propositions is critical (Dusuki & Abdullah, 2007). By institutionalizing Syaria factoring, Islamic banks and non-bank financial institutions can penetrate new markets and build loyalty among ethically conscious clients, thus reinforcing the industry's sustainability.

The introduction of Syaria factoring also necessitates capacity building among stakeholders, including Islamic scholars, product developers, and regulators. Educating SMEs on how Syaria factoring works and ensuring that financial professionals understand both the legal and operational dimensions are essential steps. Institutions such as the Islamic Financial Services Board (IFSB) and national Shariah boards can play a pivotal role in developing guidelines, conducting training, and promoting best practices (World Bank, 2015). This knowledge diffusion strengthens the entire Islamic financial infrastructure, making it more responsive to real economic needs.

On a macroeconomic level, widespread adoption of Syaria factoring could help reduce systemic reliance on debt-based finance and foster a more resilient, equity-oriented financial system. By encouraging real-sector engagement and discouraging speculation, Syaria factoring supports the Islamic economic ideal of linking finance with productive activity. This alignment is vital for achieving sustainable development goals (SDGs), particularly those related to poverty alleviation and inclusive growth (Iqbal & Mirakhor, 2011). SMEs empowered through halal finance are more likely to expand operations, create jobs, and contribute to national economic stability.

Moreover, the ethical nature of Syaria factoring can serve as a model for socially responsible finance in both Muslim and non-Muslim contexts. As global attention shifts toward ESG (Environmental, Social, Governance) principles and ethical investing, the Islamic finance sector is uniquely positioned to lead this transition. By promoting instruments like Syaria factoring, which embody transparency, fairness, and social impact, the sector can attract a broader clientele and shape the future of finance (Kahf, 2003, pp. 160–162).

In essence, Syaria factoring functions not only as a financing tool but as a catalyst for institutional development, market expansion, and value-based economic reform. Its capacity to empower SMEs and enrich the Islamic finance landscape reflects its dual role as both a commercial product and a moral imperative. Through deliberate design, stakeholder engagement, and supportive regulation, Syaria factoring can become a cornerstone of ethical finance and inclusive development.

This study has systematically answered its three guiding research questions through a multi-dimensional analysis of Syaria factoring. First, it demonstrated that Syaria factoring can be effectively structured using a hybrid of wakalah, murabahah, and ijarah contracts to ensure both shariah compliance and operational viability. These contracts, grounded in Islamic jurisprudence, eliminate the prohibited elements of riba and gharar that characterize conventional factoring. Second, a comparative evaluation revealed that Syaria factoring is fundamentally distinct from its conventional counterpart—not merely in form, but in legal logic, ethical orientation, and financial philosophy. Whereas conventional factoring commodifies debt and maximizes lender returns, Syaria factoring centers on risk-sharing, service provision, and ethical fairness. Third, the study illuminated the transformative potential of Syaria factoring in enhancing SME access to finance and reinforcing the Islamic finance ecosystem. It does so by offering liquidity solutions that align with religious values and by stimulating product diversification among Islamic financial institutions.

The study's theoretical contribution lies in its integrative model that synthesizes fiqh al-mu'amalat, contract theory, and institutional economics to frame Syaria factoring as a scalable, compliant, and ethically grounded financial tool. This research fills a critical gap in the literature by providing a conceptual framework that not only defines Syaria factoring but also aligns it with the objectives of maqasid al-shariah. Practically, the research offers a pathway for Islamic banks and non-bank financial institutions to serve underserved markets, especially SMEs that are often excluded from conventional financial services due to lack of collateral or religious concerns. The study recommends that regulators and standard-setting bodies develop clear guidelines, enhance stakeholder education, and institutionalize shariah oversight mechanisms to support the implementation of Syaria factoring.

The implications of this study are both theoretical and practical. Theoretically, it refines the application of Islamic contract theory by adapting it to contemporary trade finance needs, thereby expanding the relevance and usability of classical jurisprudence in modern financial markets. Practically, it offers strategies for financial inclusion, particularly in Muslim-majority economies where the demand for shariah-compliant financing tools is high. The model can be applied in management decision-making, SME financing strategies, and Islamic banking product development. Future research can build upon this foundation to test empirical viability, explore cross-jurisdictional applications, or integrate digital technologies such as fintech in enhancing Syaria factoring solutions.

CONCLUSION

This study has presented a comprehensive examination of Syaria factoring as a shariah-compliant financial instrument tailored to the needs of small and medium enterprises (SMEs) and the broader Islamic finance ecosystem. It established that Syaria factoring can be structured using a combination of agency (wakalah), cost-plus sales (murabahah), and service lease (ijarah) contracts to deliver ethical, transparent, and legally permissible financing. Through a comparative analysis, the study highlighted fundamental differences between Syaria and conventional factoring, not only in their technical configurations but also in their foundational values. Where conventional models rely on debt commodification and interest-bearing mechanisms, Syaria

factoring adheres to risk-sharing, asset-backing, and service orientation.

The findings underscore the significance of Syaria factoring as a tool for financial inclusion and market development. By facilitating liquidity without compromising religious values, Syaria factoring empowers SMEs that are often excluded from conventional finance. Furthermore, its adoption by Islamic financial institutions enhances product diversity and supports ethical finance initiatives. The study confirms the alignment of this model with the objectives of Islamic law, particularly economic justice, transparency, and the promotion of welfare.

Based on these findings, the study recommends the development of standardized regulatory frameworks, increased awareness among SMEs, and institutional investment in training and product innovation. These measures will not only ensure compliance and scalability but also encourage broader acceptance across markets. Future research should focus on empirical testing of the model in various legal jurisdictions and explore integration with fintech solutions to further enhance accessibility and efficiency in Islamic trade finance.

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