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OVERVIEW OF THE ISLAMIC MICROFINANCE ON MICROENTERPRISE GROWTH IN MALAYSIA

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Abstract:

This study examines the determinants of access to Islamic microfinance and its impact on the growth of microenterprises in Malaysia. Microenterprises are vital to Malaysia's economic development, but they face significant financial challenges, especially following the COVID-19 pandemic. While Islamic microfinance offers Sharia-compliant financial solutions without interest, many microenterprise owners lack awareness of these options or how to access them. The research addresses two main questions: what factors determine microentrepreneurs' access to Islamic microfinancing, and how does this financing impact microenterprise performance. Using advanced analytical methods, including logit models and propensity score matching, this study will collect data from microenterprises across Malaysia through surveys and interviews conducted over a two-month period from September to October 2025. The findings will help identify barriers to Islamic microfinance access and measure its effectiveness through key performance indicators such as sales growth, profitability, and employment generation. This research aligns with Malaysia's National Entrepreneurship Policy 2030 and will provide valuable insights for policymakers and financial institutions to improve Islamic microfinancing initiatives. By enhancing understanding of Islamic microfinance's role in supporting microenterprises, this study contributes to developing a more inclusive and resilient entrepreneurial ecosystem in Malaysia.

Keywords:

Microfinance, Islamic Microfinance, Islamic Finance, Microenterprise

Introduction

In the context of Malaysia, "SME" stands for Small and Medium Enterprises. SMEs are crucial to the Malaysian economy, contributing significantly to employment and GDP. The classification of SMEs in Malaysia is based on two main criteria which is annual sales turnover and number of full-time employees. These criteria are used to categorize businesses into micro, small, and medium enterprises across different sectors such as manufacturing and services. Moreover, it outlines substantial challenges they often face that pose even more significant threats after forced closure during COVID-19 and Movement Control Order (MCO). They suffered substantial operational fallout that brought to the fore the immediacy of efficient financial support systems. Other than that, the most common challenges that they face is that they lack digital skills where many SME owners and employees lack the skills to leverage new digital tools, making it difficult to adopt e-commerce, automation, or digital marketing strategies effectively. Those digital marketing strategies might required cost where implementing digital systems and maintaining them requires investment. Many SMEs struggle to cover these costs, especially with limited cash flow. With the adaption on new digital technology, they will expose more to cybersecurity risk where SMEs often lack on funding for the infrastructure or expertise to protect against cyberattacks.

Additionally, The high cost of running a business has been the biggest challenge for MSMEs for many years. Recently, 72.8% of MSME owners said they are worried about rising costs, which is higher than the 65.1% recorded before. In 2023, over 75% of these businesses saw their expenses go up. Looking ahead to 2024, 92.3% expect costs to rise even more, especially small and medium companies and those in construction. The main reasons for higher costs are raw materials 83.9%, labor costs like wages and levies 62.2%, and electricity bills 54.2%. (SME Corp Malaysia, 2023/24)

This is where Islamic microfinancing comes into the picture, a key solution providing small-scale financial support to entrepreneurs and individuals who lack access to conventional banking services due to SME's often lack the financial documentation that banks need to evaluate creditworthiness, such as consistent cash flow statements or audited financials. This absence of formal records makes it difficult for banks to assess loan repayment potential, causing reluctance to lend to SMEs (Beck et al., 2008) in accordance with Islamic principles. This system aims to alleviate poverty and promote economic development by offering financial products that are Sharia-compliant. In other words, this study understands the contribution of accessing Islamic microfinancing in determining and influencing the performance of microenterprises to support national policies that create conducive ecosystems for entrepreneurship.

Islamic microfinance is rooted in the principles of Shariah, emphasizing risk-sharing, prohibition of *riba* (interest), and promotion of social justice (Abdullah & Oseni, 2020; Hassan & Aliyu, 2018). These principles distinguish Islamic microfinance from conventional microfinance, as the former encourages profit-and-loss sharing and asset-backed financing (Abd Rahman et al., 2020). The underlying contracts-such as *mudharabah*, *musharakah*, *murabahah*, and *qard al-hasan*-are designed to foster entrepreneurship and financial inclusion (Muneeza & Hassan, 2020; Mohd Thas Thaker et al., 2022).

Recent studies highlight the ethical appeal and inclusivity of Islamic microfinance, especially in Muslim-majority countries (Hanif & Iqbal, 2023; Raza et al., 2023). The integration of zakat and waqf further strengthens the sector's social impact, providing safety nets for the poor and supporting micro-enterprise development (Abdullah et al., 2021; Mohieldin et al., 2021).

Islam is laid on a foundation that strongly encourages a just and inclusive society where individuals share resources in a more redistributive manner (Mohieldin et al., 2011). The philosophical underpinnings that govern Islamic finance in providing supports for socioeconomic development of all individuals thereby ensuring financial inclusion through extended services to those considered bankable and unbankable within the society such as SMEs (Asutay and Marzban, 2012; Bank Negara Malaysia, 2016). According to Marzban and World Bank (2015), Islamic finance promotes entrepreneurship through the promotion of asset-backed financing and risk-sharing. Whereas “asset-backed financing ensures that the transaction is financing real economic activity based on close linkage to the financed assets, thereby ensuring less “financialization” in the economy. Equity-based financing encourages profit and loss sharing between financiers and entrepreneurs, which results into greater alignment of interests and increased risk-sharing” (Marzban and World Bank, 2015). This also encourages business enterprises in particular seed and startup capital for new companies, which depends absolutely on financing addition for their businesses. Islamic finance provides innovative and inclusive products that not only widen financial inclusiveness of SMEs and other unbankable individuals but also attracts capital from notable Islamic suppliers of capital and other necessary resources thereby bridging the financial gap left by conventional institutions. The ethical attributes of innovative seed, earlystage and growth-stage start-ups have successfully functioned as a catalyst for innovation driven economies and growth (Marzban and World Bank, 2015)

Research Background

The microenterprise sector has been the cornerstone of Malaysia's economy, contributing greatly to economic growth, job generation as well as income development. However, the sector has been hit very hard by the unprecedented impact of COVID-19 pandemic which further compounded existing vulnerabilities and presented new challenges. The Movement Control Order (MCO) ordered to stop the spread of virus, had caused most business closed and affected operation as well (Ghaouri et al., 2023). The widespread loss of revenue combined with a lack of financial reserves and operating on such small scales left microenterprises severely affected, at the same time they lacked necessary resources to overcome this. This sector also faces several challenges on rising of costs such as labour, raw materials, bills and etc (SME Corp Malaysia, 2023).

Therefore, it is incumbent that Islamic microfinancing be considered an integral financial tool to rehabilitate these small units during the recovery phase. Islamic microfinancing, in contrast with traditional financing, is based on Sharia principles and one of its top no is interest (or *riba*), encouraging sharing risk-processes and ethical investments instead. Offering microenterprise this lover of financing, which provides them with interest-free-loans along with other shariah compliant financial products makes seeking necessary capital much simpler without requiring to repay passions (Olanrewaju et al., 2020). Islamic-based microfinancing institution such as TEKUN, MARA, Permodalan Usahawan Nasional Berhad or PUNB and Agro Bank had contributed significantly in the area of providing financial assistance for microenterprises. Astute Analytica, Malaysia Microfinancing Market Report, 2023 highlights

that only 37% of Malaysians have sufficient financial literacy, implying low awareness of Islamic micro-financing products among micro-entrepreneurs

The government of Malaysia has realized the importance of taking such an approach, which would help microenterprise through financial inclusion. This will be aligned with the National Entrepreneurship Policy (NEP) 2030 as well as the SME Masterplan (2012-2020) which indicate the importance of creating greater access to financing to develop a resilient and sustainable microenterprise landscape (Mutamimah et al., 2022). However, all these efforts might be in vain since many microenterprise owners do not know where to find it nor from which financing source to get the best one. This lack of knowledge and understanding is a major impediment towards meaningful financial inclusion. Furthermore, very limited empirical works have been conducted on the factors affecting access to Islamic microfinancing and its effect on microenterprise performance in Malaysia (Puteri et al., 2022). Knowledge of these determinants is important for designing policy measures that will improve access to financial services and support the development of microenterprises through this channel.

Therefore, this research attempts to address the research gap by studying which factors affect micro enterprises' access to Islamic microfinancing and how does it contribute towards performance of these firms (Fithria et al., 2021). Through the use of advanced econometric methods, such as logit models, propensity score matching and difference-in-difference analysis, this study aims to yield a strong understanding into the role of Islamic microfinancing as a trigger both for microenterprise resilience and survival. Overall, this research correlates with the broader plan of Twelfth Malaysia Plan in developing a vibrant and more inclusive entrepreneurial ecosystem.

Problem Statement

Microenterprises in Malaysia play a vital role in economic development by generating employment and driving local economies. (Dorfleitner et al., 2020). Malaysia's microenterprise sector is met with several obstacles, more so now in light of the economic disruptions due to Covid-19. Subsequently, the challenges were further compounded by the imposition of Movement Control Order (MCO) as many microenterprises have to cease their business operations which results in loss of significant revenue and difficulties in on-going business operations (Ahmad et al., 2020). However, their growth and sustainability are hindered by several challenges. Financial constraints, such as limited access to affordable financing, are among the most pressing issues. Rising costs for labor, raw materials, and utilities further compound these difficulties. (SME Corp Malaysia, 2024). Additionally, many microenterprises lack awareness of the financial products available to them, particularly Islamic microfinance options. (Puteri et al., 2022). Considering how vital microenterprises' activities are for the growth of an economy and their role in creating jobs, relying on a similar strategy that requires access to financial funding may put such businesses at risk. As a result of this, due to this financial constraint, it is sometimes beyond their capacity to invest in the equipment they need, expand the workforce and scale up so that it has an impact on overall viability and growth prospects.

Islamic microfinancing is a plausible way of overcoming these financing constraints because it offers financial instruments that are in adherence to Sharia laws and does not have interest; this matches the moral and religious inclination of numerous micro-entrepreneurs operating in Malaysia. Although Islamic microfinance products are available, there is a lack of knowledge

about how to find and access them and if they serve the purposes for which an individual wants to have. The microenterprise owners do not know how to apply, who is eligible for the loan and indeed what are the specific advantages of adopting Islamic form of financing as opposed to conventional forms (Ginanjar & Kassim, 2020). This lack of knowledge, awareness and insight leads to the underutilization of existing financial resources available as microenterprises are unable to make full use of support mechanism developed for their recovery, growth and development.

Existing empirical research has primarily focused on conventional microfinance, leaving gaps in knowledge regarding the determinants of access to Islamic microfinance and its impact on microenterprise performance (Fithria et al., 2021). Additionally, there is little empirical research on determinant of Islamic microfinancing accessibility to microenterprises. Demand for these financial resources significantly depends on demographic factors, business profiles of individuals, and their networking with other organizations conducting activities in coordination with financial institutions including banks (Istan & Fahlevi, 2020). Knowing the determinants of these variables is fundamental to design policies and plans that eventually lead to improvement in financial inclusion, and sustainability of microenterprises.

Finally, we know very little about the consequences of Islamic microfinancing for microenterprise performance. It is essential to assess its suitability, including measuring key performance indicators (KPIs) such as return on assets, profitability on net profit margin, sales growth and employment growth to understand if businesses' access to Islamic microfinancing leads also enhances results in practice (Muhammad, 2020). It is against this backdrop that these research gaps need to be addressed so as to provide a robust foundation on the validity of Islamic microfinancing and its relevance towards addressing the needs of microenterprises. Thus, this discussion of the problem statement demonstrates that detailed research is necessary to find out which determinants allow for access to Islamic microfinancing and analyse the outcome in terms of its impact on microenterprise performance. In doing so, we hope to create a knowledge-based that could impact policymaking and the financial ecosystem in general, resulting in growth and strengthening of the nation's microenterprises.

Thus, this discussion of the problem statement demonstrates that detailed research is necessary to find out which determinants allow for access to Islamic microfinancing and analyse the outcome in terms of its impact on microenterprise performance. In doing so, we hope to create a knowledge-based that could impact policymaking and the financial ecosystem in general, resulting in growth and strengthening of the nation's microenterprises.

Research Significance

This research could potentially serve as a foundation to understand and improve the financial ecosystem for microenterprises in Malaysia. Therefore, by looking at the factors that influence micro-entrepreneurs' access to Islamic microfinance in comparison to conventional ones, the study offers valuable insights into how they might make the best use of financial resources designed for resilience and growth. Understanding these aspects are vital with the purpose of policy makers and financial institution to gain insight on how they can help improve in terms of extending coverage, outreach as well as more effective initiatives for Islamic based microfinancing programs. Increased access to such financial capital can be quite useful in the ability of microenterprises to remain scalable and support growth; something needed for realizing sustainability in Malaysia's continued development.

Thus, the research will also contribute to evaluate empirical evidence on the effectiveness of Islamic microfinancing in terms of its impact on microenterprise performance. Those key performance indicators will involve return on assets, profitability on net profit margin, sales growth and employment growth also. Consequently, the results will provide some useful information from real-life analysis that can attest to the contribution of Islamic microfinancing as a driving factor for enhancing businesses. As a result, this can assist financial institutions in developing their products to better serve microenterprises and allow them to make the best use of available assistance.

Moreover, the study contributes to academic literature by circumventing an adapting endogeneity problem facing many studies investigating microfinancing impact. The study uses advanced econometric techniques, viz., propensity score matching and endogenous switching regression to obtain robust and consistent results. In the end, the present study corroborates with the prime aspiration of economic inclusive & empower inscribed in NEP (National Entrepreneurship Policy) 2030 and TMP12 by focusing on these special interest areas. With the creation of a conducive financial environment, this study could contribute toward more resilient and vibrant entrepreneurial ecosystems for microenterprises in Malaysia.

Literature Review

Critical and comprehensive review of relevant literature on the particular topic that ultimately helps in accomplishing the key questions defined for investigating Islamic microfinancing as regards to its effect on performance of microenterprise in Malaysia. To properly conduct the research, literature review is organised to expose an in-depth view of the variables and concepts that are instrumental. Based on the aforementioned, this indicates that there is a need to develop a clear theoretical and empirical framework which will help facilitate understanding some of the determinants towards access in relation with Islamic microfinancing as well its expected outcomes particularly under the pretext of business.

Microenterprise in Malaysia

Micro-enterprises are the backbone of Malaysia's economy, constituting over 76% of total SMEs and contributing significantly to employment and GDP (SME Corp Malaysia, 2023). However, micro-enterprises face persistent challenges, including limited access to finance, inadequate business skills, and vulnerability to economic shocks (Ghaouri et al., 2023; Ahmad et al., 2020; Dorfleitner et al., 2020).

The COVID-19 pandemic exacerbated these challenges, with many micro-enterprises experiencing severe revenue losses and operational disruptions (Olanrewaju et al., 2020; Ghaouri et al., 2023). Post-pandemic recovery has been slow, with rising costs and cash flow constraints remaining major obstacles (SME Corp Malaysia, 2023; Mutamimah et al., 2022). In this regard, it is essential to analyse microenterprise characteristics in exploring the dynamics between access to Islamic microfinancing and its relationship with business performance (Nurhidayat & Syarief, 2020). Microenterprises by their small scale of operations, limited resources, and informal operation represent a substantial portion of the Malaysian economy and many developing countries. They are small businesses with limited capital investment and few employees which can result in greater vulnerability to fluctuating economic conditions, shortages of finance.

Moreover, the age of a microenterprise also significantly affects its opportunities for obtaining finance. On the flip side, newer microenterprises may not have built up a credit history or any proven long-term financial stability to show potential lenders (Ginanjar & Kassim, 2020). As a result, Islamic microfinancing and other financial products may be more feasible for older microenterprises that have demonstrated their ability to operate successfully and manage their finances properly.

The sector that the microenterprise operates in is also a major factor with respect to its financing requirements and accessibility (Ghaouri et al., 2023). Owing to different capital requirements, risk profiles and market dynamics, Islamic microfinancing may be available only for specific type of target these might not cover all the individual but would meet with some demand. For instance, micro enterprises in agriculture or manufacturing may need finance to buy equipment or for inventory management, and those engaged in services sector may require working capital line of credit) to run the day-to-day activities.

Microenterprise performance is also shaped by factors such as ICT usage and human capital. Their study on women entrepreneurs in Malaysia reveals that Islamic microfinancing, combined with ICT and skills development, significantly enhances business outcomes. This highlights the importance of integrating technology and capacity-building efforts with financing solutions. (Hamdan et al., 2022)

Financial and Business Practices

Reviewing financial and business practices from microenterprises is necessary to summarize how they are engaged with Islamic microfinancing and how their overall performance took it. Financial practices include a set of current and previous financial management, record-keeping, financing experience while business practices relate to operational strategies and ways of doing things within the microenterprise. Effective financial management practices for microenterprises seeking Islamic based microfinancing practice under this heading revolves around budgeting, cash flow management and financial reporting. Islamic microfinance institutions are more inclined to consider those microenterprises as potential borrowers where they can assess formally good financial accountabilities and provide them financing opportunity (Olanrewaju et al., 2020). On the other hand, bad financial management that involves insufficient records and high borrowing s cripples' access to Islamic microfinancing and any other form of financing.

Record keeping is very important for the evaluation of micro-enterprises' creditworthiness. For instance, accurate finance records that include income statement analysis, balance sheet state record and cash flow statements give microenterprise the credibility to present their stability soundness and financial performance status on whether it can meet then this shows lenders. These complement the assessment of ability for repayment and risk which are both crucial in Islamic microfinancing approval process.

In addition, former experiences of borrowing history and the repayment behaviour also limits or widens access to Islamic charily microfinance (Istan & Fahlevi, 2020). Therefore, microenterprises with a successful history in terms of deadlines for loan repayment and those that have shown caution when assuming debts can be seen as low-risk debtors to some extent, which will allow them to receive financial resources on favourable terms. Alternatively, for microenterprises with track record of default or lack of on-time repayment, they will potentially

encounter difficulty to secure Islamic microfinancing and will have to pay a more expensive rate or stringently qualify requirements.

However, it was not just financial practices but also business practices such as product diversification, market research and strategic planning that affected the performance and growth potential of microenterprises. In that regard, these practices promote improved competitiveness and market responsiveness among businesses while promoting longer term business sustainability (Puteri et al., 2022). Islamic microfinancing can help the establishment to undertake strategic business strategies by enabling it to secure capital, which will be used in growing into new markets and expanding their goods.

Knowledge in Microfinancing

Despite its potential, Islamic microfinance faces several challenges, including limited product innovation, regulatory constraints, and low public awareness (Hanif & Iqbal, 2023; Hassan & Aliyu, 2018; Muneeza & Hassan, 2020). Access to Islamic microfinance is influenced by a range of factors, including awareness, religious inclination, proximity to financial institutions, financial literacy, and institutional support (Puteri et al., 2022; Fithria et al., 2021; Istan & Fahlevi, 2020). Studies show that micro-entrepreneurs with higher religious commitment are more likely to seek Shariah-compliant financing (Fithria et al., 2021; Hanif & Iqbal, 2023).

Awareness and understanding of Islamic microfinance products remain low among many micro-entrepreneurs, limiting uptake (Puteri et al., 2022; Ginanjar & Kassim, 2020). Institutional factors, such as simplified application processes, flexible repayment terms, and outreach programs, have been shown to enhance access (Mohd Thas Thaker et al., 2022; Nik Azman et al., 2021). Gender and location also play a role: women and rural entrepreneurs often face greater barriers to access due to social norms and limited institutional presence (Abdullah et al., 2021; Hamdan & Kassim, 2023; Hassan et al., 2022).

SMEs in developing economies grapple with a set of pronounced challenges, including limited access to essential information, weak legal systems, and inefficient regulatory frameworks (Veiga and McCahery, 2019). Notably, a fundamental and pervasive challenge for SMEs in these environments is the severe limitation in accessing financial capital (World Bank, 2023). As a result, microfinance institutions (MFIs) have emerged as an important source of financial resources for SMEs (Dorfleitner et al., 2020).

A vast majority of micro-entrepreneurs, especially from the informal or conventional sector may not be aware of Islamic mechanisms available for their financing. directly as a result of low access to information channels, low levels of financial literacy and in general having very little previous exposure to formal financial services (Ghaouri et al., 2023). Therefore, micro-entrepreneurs may tend to neglect Islamic microfinancing as a proper channel of fund procurement and prefer traditional financing avenues or where possible get funding through informal lending channels.

Additionally, even those micro-entrepreneurs who are aware of the Islamic microfinancing may have limited understanding on how to apply and accompanied eligibilities. These are but a few of the complexities: there is much to grasp with respect to Sharia-compliant financial principles, documentation side of things and Islamic microfinance institutions (Mutamimah et al., 2022). All these lead entrepreneurs towards lack of understanding followed by

apprehension or indecision in terms of whether they should address an opportunity via Islamic microfinancing mechanisms as well.

Creating more awareness in Islamic microfinancing to the current owners of micro-businesses improves financial inclusion while making such business entities informed on how to make wise decisions regarding finances as well. Outreach activities, workshops that educate a micro-entrepreneur and well-designed communication strategies can also contribute to increasing awareness and knowledge among those who run these enterprises (Ahmad et al., 2020). The legs of these initiatives will help to disseminate information on the benefits emanating from Islamic microfinancing and remove misconceptions while at the same time, they will be instrumental in ensuring that potential micro-entrepreneurs are given proper guidance during their engagement in application and utilization.

The benefits of increased awareness and knowledge about these Islamic microfinancing options for the micro-entrepreneurs could be. They may gain access to a wide variety of financial products that meet their unique needs, be able to operate under the best financing conditions, and experience sustained growth (Istan & Fahlevi, 2020). In addition, well-informed micro-entrepreneurs can use Islamic microfinancing to make strategic investments, exercise working capital and business expansion which in the end plays an essential role towards economic development and entrepreneurship empowerment within Malaysia

Conceptual Framework

The study's conceptual framework is built in accordance with these characteristics as reflected in research objectives. IVs. IV will indicate the factors, which affect the access to Islamic microfinancing by Malaysian micro-enterprises. DV will show how significant Islamic microfinancing had a positive impact on microenterprise performance. This supporting framework summarily presents the relationships, effects, and a guide for analysing these variables that are hypothesized in the conceptual framework.

At the first set of IVs in conceptual framework are demographic characteristic of micro-entrepreneurs including age, gender, education level and household income (Puteri et al., 2022). It is expected that the identified demographic factors will impact how micro-enterprises access Islamic microfinance, such as young entrepreneurs, those with high levels of education and households' income being more likely to seek easier ways in which they can find financing.

The second set of IVs refer to microenterprise's characteristics, such as the number of employees, age of business, and sector. It is assuming that such characteristics will affect the accessibility and usage of Islamic microfinancing (Fithria et al., 2021). Therefore, it should be expected that larger, more established case studies will have easier access to funding compared as they are big in size screening effect.

The third family of IVs related to financial and business practices: record-keeping practices, previous financing history and networking with financial institutions (Mutamimah et al., 2022). It is argued that these practices influence creditworthiness issues on the side of micro enterprises and may ensure their access to Islamic microfinancing, as good financial management practice along with positive borrowing record increase their ability to borrow.

Fourthly, awareness and knowledge about Islamic provision of microfinancing among the micro-entrepreneurs. That means knowing what Islamic microfinancing products are available, how to apply for them and who is eligible (Istan & Fahlevi, 2020). Similarly, the study also expects that there is a positive correlation between increased awareness and knowledge with greater utilization of Islamic microfinancing by micro-enterprises.

As for the DV, which is microenterprise performance; this reflects through a set of indicators including return on asset, profitability on net profit margin, sales growth and employment growth (Fithria et al., 2021). Considering these factors, it is hypothesizes that Islamic microfinancing is likely to Favor performance of the microenterprise: access to financing will contribute better financial results including business growth.

The conceptual framework's focus on independent and dependent variables allows for a structured analysis of cause-effect relationships. Alternative frameworks, such as purely qualitative models, could offer richer narratives but lack the ability to generalize findings statistically. This quantitative approach ensures robustness and replicability, key attributes for policy-relevant research.

Table 1: Independent Variable & Dependent Variable

Category	Independent Variables (IVs)	Dependent Variables (DVs)
Demographic Characteristics	Age, gender, education level, household income	
Microenterprise Characteristics	Number of employees, business age, sector/industry	
Financial and Business Practices	Record-keeping, prior financing history, networking with financial institutions	
Awareness and Knowledge	Awareness of Islamic microfinancing products, application processes, eligibility criteria	
Performance Metrics		Return on assets (ROA), profitability on net profit margin, sales growth, employment growth

Research Design

A quantitative research design is used in this study to explore the relationship between Islamic microfinancing and microenterprise performance among Malaysian enterprises. In general, research using quantitative methods was conducted due to the appropriateness of quantifiable data for analysis and establishing statistical connections between factors. A cross-sectional survey design under the framework of quantitative research is utilized in this study to collect data from microenterprise entrepreneurs across various sectors and regions in Malaysia. This design would enable the analysis of data from a single point in time by gathering information

that could offer an overview of the current state of microenterprises-condition (access to Islamic microfinancing services as well as various performance indicators).

The cross-sectional survey design is also administered through structured questionnaires but acquires information regarding several aspects of Islamic microfinancing, business operations, awareness and externalities as well as performance indicators by asking microenterprise owners or their financial managers. Moreover, longitudinal analysis could be implemented to follow the changes and tendencies along time and gain an understanding of the developments in Islamic microfinancing and their effect on microenterprise growth (Ginanjari & Kassim, 2020).

There are several reasons for selecting a cross-sectional survey design. For one, it allows for the convenient data collection in a sample of diverse microenterprises that offers great generalizability to all microenterprises in Malaysia. Also, the design allows for the analysis of several variables at a time and will help to gain a better understanding of how various factors interact with each other in affecting access to Islamic micro-financing and micro-enterprise performance (Fithria et al., 2021). Third, the survey design allows statistical analysis methods like regression modelling and propensity score of matching to be carried out on the data to validate assumptions and infer causal relationships.

The cross-sectional design is particularly effective for identifying patterns and correlations. Longitudinal designs, while valuable for tracking changes, require extensive time and resources. Experimental designs, though ideal for establishing causation, are often impractical in real-world settings like microenterprise studies. The chosen design balances feasibility with the need for robust data.

Population and Sample

Because of the large variation and heterogeneity in microenterprises, a sampling strategy is needed to select an appropriate sample of exposure units to represent the whole population as fully as possible. Using convenience sampling, an approach of identifying and recruiting the participants from within the target population based on accessibility and availability. This way to collect data is practicable and brings satisfactory results on the incorporation of microenterprises located at a proximal distance, which are willing to participate in the research. As consequence, improvements have been achieved for the feasibility stage of integration with these agents.

Convenience sampling is pragmatic for hard-to-reach populations like microenterprises. Random sampling, while statistically ideal, may not be practical due to accessibility issues. Stratified sampling provides precision but requires detailed population data that may not be available. Convenience sampling offers a practical compromise, ensuring sufficient diversity in the sample

The study determines the sample size based on statistical rationality, which includes the confidence level, margin of error and an effect size expected. Aside from that, the larger sample size in this research contributes to more precise and reliable results because it minimizes error due to random chance apart from enabling stronger statistical analyses. Adding that this phenomenon also increases “the generalisation of research findings” beyond the immediate scope. Ultimately, resource constraints and practical considerations can impact the final sample

size determination, but researchers should strive to achieve an appropriate balance between statistical robustness and practical realities.

The sampling will be the process of identifying suitable participants across various industry and geographical segments in Malaysia. Microenterprises are reached through business directories, industry associations and networking tools. Participation in the survey is wholly on a voluntary basis and to obtain an informed consent from each microenterprise before collecting any data. It is set up to reflect different kinds of microenterprise, on variables such as size and sector, type of ownership/jurisdiction where registered and other aspects so that it represents a full range of the field.

The sample size will be determined using statistical tools such as G-Power to ensure adequate power for detecting significant effects. Factors such as confidence level, margin of error, and expected effect size will guide the calculation. For example, with a confidence level of 95% and an expected medium effect size, approximately 200-350 respondents would provide robust and reliable results. This sample size balances statistical robustness with practical feasibility.

Data Collection Method

For microenterprises, no business performance data are reported publicly. A researcher must rely on self-reporting measures, and it becomes a more challenging task because micro and small enterprises do not keep records of their business transactions. Hence, a structured questionnaire is formulated as the main primary data acquisition tool. The questionnaire is developed according to the research objectives, article reviews, and theoretical framework as well as relevant factors related to; Islamic microfinancing, microenterprise characteristics that involve demography and social backgrounds, financial and business behavior frequency data etc), awareness external stimuli. The questionnaire has close-ended questions (multiple choice and Likert scale items) and open-ended ones, enabling the participants to provide qualitative insights and explanations (Puteri et al., 2022).

Survey's administration: It was carried out by contacting directly microenterprises' owners or responsible for finances, interesting them on taking part in our study. Different communication channels will be used, such as email, phone calls and visiting in person according to the appropriateness of contact people. Participants are explained about the objective of conducting this study and assure them their responses will be confidential where taking part is voluntarily done to consider informed consent and ethical issues.

Accuracy, completeness and consistency are the three procedures which must be a priority to ensure quality of collected data. Training of data collectors to ensure that they understand the questionnaire, interview tactics hints, and ethical consideration may also be organized. Data validation measures involving dual methods and verifying the correctness of information from the participants are employed to reduce errors and protect data integrity. In addition, the reliability of data is checked through internal consistent checks, test-retest reliability which is used to evaluate time-based changes and identify drifts over time and inter-rater consistency if necessary. Such checks enable a screening or correction of possible biases and variances within the data that serve to confirm the validity and reliability of study-reported findings.

Ethical considerations are an important part of the data collection process and help to protect participant rights and privacy. Participants' responses are confidential, and their data is anonymized and compiled to analyse on an aggregate basis, so the identity of respondents cannot be associated with specific individual's private information. To sum up, this research relies on various methods of data collection that are implemented with a focus on rigor, validity and ethical standards in order to produce high-quality data that can underpin rigorous analysis and yield meaningful results regarding Islamic microfinancing–microenterprise performance nexus in Malaysia.

Structured questionnaires allow for consistency and scalability. In contrast, interviews, while providing richer insights, are resource-intensive and less suited for large samples. Observational methods lack applicability for self-reported metrics like financial performance. The chosen method ensures a balance between breadth and depth, aligning with the study's objectives.

Variables and Measure

The independent variables included demographic characteristics (the age, gender, education level, and household income) about the microenterprise ownership or manager. These demographic variables capture the socio-economic background of microentrepreneurs and may have important implications on access to Islamic microfinancing. Moreover, the age of the business (in years), industry sector are also included. Together, these variables capture the heterogenous nature and changing dynamics at the level of microenterprises and its impact on financial access as well as performance.

The final set is on financial and business practices IV that includes strengths and observed deficiencies in record-keeping for the last financial support, financing history of women with a similar background as theirs, networking linkage to any credit institution. How such practices influence the credit worthiness, financial management capacity and relationship of microenterprises with Islamic Microfinance Institutions (IMS) consequently has an impact on their access to IM. It is apparent that awareness and knowledge of Islamic microfinancing products; application processes; and eligibility criteria are also involved as IVs. This indicates the necessary information or educational plays an important role in enhancing financial inclusion for this particular aspect of microenterprises.

The selection of variables ensures a holistic understanding of the factors influencing microenterprise performance. While alternative measures like qualitative indicators could capture nuanced impacts, they lack the objectivity and comparability of quantitative metrics. The chosen variables are both comprehensive and measurable, facilitating robust statistical analysis.

Research Instruments

The primary research instrument is a structured questionnaire designed for microenterprise owners or financial managers in Malaysia. The questionnaire is composed with closed ended as well as open-ended questions and it deals with various aspects of Islamic Micro-financing. The closed-ended questions in the survey consisted of multiple-choice items, Likert scale statements, and yes/no responses. The compilation provided an acceptability manner for gathering quantitative data on demographic-based features, microenterprise traits, financial behaviour patterns, awareness and influence from external parties

The questionnaire starts with general sections for collecting the demographic information about respondents including age, gender, education level and household income. These demographic variables help understand or infer about microenterprise owners' or managers' socio-economic background. This background can govern various factors including access to Islamic microfinancing, business performance etc. Other sections of the questionnaire relate to information on microenterprise characteristics such as business size measured by number of employees, years in operation/age of business, nature or sector of industry and ownership. Through these questions, a picture of the diversity and dynamism of the microenterprise sector can be obtained, revealing how different levels/segments within it exhibit distinctive patterns in terms of use or availability of financial services and performance outcomes.

Furthermore, the financial and business practices sections ask questions on the respondent's record-keeping behavior, prior borrowing bridges crossed experiences; linkages with financial institutions and consumption radios of offered Islamic microfinance products. On microenterprises, it covers the financial management competencies credit background and relationship with Islamic finance providers. This will be of value to understand what determines access to financing for such enterprises. Questions that verify level of awareness and knowledge on Islamic microfinancing include those that determine one's familiarity with Sharia-complaint financial products, understanding how one should apply for such types of finance, knowledge about eligibility attributes as well as where they obtain information regarding Islamic microfinance. The questions also indicate the level of awareness or knowledge of microenterprise owners or managers where Islamic microfinance is concerned and their extent of consideration and preference in informed decision making and financial service usage.

Structured questionnaires are efficient for capturing large datasets systematically. In contrast, semi-structured interviews, while more flexible, are less suited for large-scale studies. The inclusion of open-ended questions addresses the limitation of purely quantitative methods by providing qualitative insights, thus enriching the analysis.

Data Analysis Techniques

The results from the study data analysis process are also seen to be robust in analyzing various relationships between variables and deriving substantive conclusions regarding the influence of Islamic microfinancing on microenterprise outcomes in Malaysia. These techniques are consistent with the quantitative characteristics of our research and are indeed necessary for achieving the particular objectives stated in this study.

Descriptive statistics used in the first phase to summarize and express certain characteristics of a study sample, factions representing variables involved. Descriptive statistics such as measures used; means, standard deviations, frequencies and percentages are vital in describing demographic profiles background microenterprise attributes awareness levels external factors impacting their operations and performance metrics. Descriptive statistics help to summarize the data and state the key trends, distributions, and patterns observed in the sample which are used to undertake deeper analysis (Ghaouri et al., 2023).

Therefore, logit model is used to examine the predictors that effecting microenterprises in Malaysia's access towards Islamic microfinancing. This statistical model is appropriate for a binary dependent variable which in the case of this study, it will be decision to borrow Islamic

microfinancing (1=borrow and 0=not borrow). By the nature of it where logit model is used to estimate what are the likelihoods for an individual head who has access Islamic microfinancing using some independent variables in this case such as demographic's characteristic, enterprise behavior, financial conducts and awareness/externalities. Finally, this analysis allows to find the important predictors of borrowing decisions for access to Islamic microfinancing and their impact among microenterprises that were treated in this study. The logit model uses the logistic function, which provides a direct and interpretable relationship between independent variables and the probability of access. Logit coefficients can be interpreted as changes in the log-odds of the dependent variable, making them intuitive for policymakers and stakeholders. Many studies on access to financing and financial inclusion prefer the logit model for binary outcomes, as it performs well with imbalanced datasets. The logit model is preferred because it balances simplicity, interpretability, and computational efficiency, making it more suitable to study practical implications.

The study uses propensity score matching to control potential selection bias and compare the outcomes of microenterprises that benefitted from Islamic microfinancing with those that did not. The PSM approach matches participants with non-participants that share similar observable characteristics, such as borrower and non borrower that has the same demographic and microenterprise's characteristic, which helps to produce treatment and control groups that are roughly equivalent. This approach is seen in a proper manner so that the real measurement of Islamic-based microfinancing on the determination microenterprise indicators such as return on assets, profitability on net profit margin, sales Growth and employment opportunity. The validity and reliability of causal inference on impacts from Islamic microfinancing has been improved by PSM through the control for all confounding variables (Mutamimah et al., 2022). PSM is ideal when treatment (access to Islamic microfinance) is not randomly assigned but influenced by observable characteristics. By matching treated (microenterprises with access) and control groups (microenterprises without access) based on propensity scores. Unlike DiD, PSM does not require pre-treatment and post-treatment data. Your cross-sectional dataset, which likely captures outcomes at a single point in time, aligns with the PSM methodology. PSM controls for observed characteristics influencing treatment assignment, providing a more balanced comparison between treated and control groups. PSM is the superior choice for this study because it suits cross-sectional data, addresses selection bias using observed characteristics, and provides robust causal estimates without requiring pre-treatment data.

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