

**ANALYSIS OF MICRO-ENTREPRENEURS'
PERFORMANCE IN ISLAMIC MICROFINANCE
INSTITUTION IN MALAYSIA: MODERATING EFFECT
OF GEOGRAPHICAL LOCATION**

BY

NUR HAZIRAH BINTI HAMDAN

**A thesis submitted in fulfilment of the requirement for the
degree of Doctor of Philosophy in Islamic Banking and
Finance**

**IIUM Institute of Islamic Banking and Finance
International Islamic University Malaysia**

MARCH 2022

ABSTRACT

Micro-entrepreneurs have contributed significantly to the socio-economic development of low-income households, which ensures long-term economic prosperity. Despite this, financial constraints are one of the primary challenges micro-entrepreneurs face. Formal financial institutions regard them as a high-risk and high-cost market segment. Acknowledging their financial constraints, Islamic microfinance institutions, such as Amanah Ikhtiar Malaysia (AIM), are essential in providing the necessary financial assistance based on the *Shari'ah* concept for micro-entrepreneurs. As evident from a growing body of research, entrepreneurial success is also dependent on other entrepreneur resources such as social capital, human capital, and ICT usage. Thus, this study aimed to examine the effect of financial capital, social capital, human capital, and ICT usage on micro-entrepreneurs' performance, focusing on Islamic microfinance institutions in Malaysia. This study also aimed to identify whether a geographical location moderated these factors that may influence micro-entrepreneurs' performance. A total of 416 micro-entrepreneurs as clients of AIM were involved in this study who were selected from the states of Selangor and Pahang, representing urban and rural regions. The partial least squares – structural equation model (PLS-SEM) investigated the relationship among the variables. The study found that financial capital, social capital, human capital, and ICT usage significantly influenced the micro-entrepreneurs' performance. The research model explained 38.2% of the substantial amount of variance in the performance of micro-entrepreneurs and a moderate level of predictive relevance. Geographical location only has a moderating effect on ICT usage and the micro-entrepreneurs' performance. This study can provide a theoretical contribution to the extension of the resource-based view (RBV) as a fundamental theory in predicting performance, particularly in the context of micro-entrepreneurs in an Islamic microfinance institution. In terms of practical contribution, the findings of this study would be beneficial for Islamic microfinance institutions to develop a more effective action plan for achieving their objectives, such as improving infrastructure, increasing knowledge and awareness about ICT usage, and shifting business strategies to the digital economy. This study will also assist the Malaysian government in developing effective policies, infrastructure, and financial assistance for micro-entrepreneurs. Furthermore, this study can assist the government and microfinance institutions to identify the most appropriate techniques for micro-entrepreneurs based on their performance in urban and rural areas. This would reinstate Malaysia's economic viability and assist micro-entrepreneurs to better comprehend the critical elements that should be fostered to improve and maintain their performance. However, this study is limited to the selected respondents, specifically micro-entrepreneurs from AIM. Thus, future research could expand on a different set of data collection.

خلاصة البحث

يساهم أصحاب المشاريع الصغيرة بشكل كبير في التنمية الاجتماعية والاقتصادية للأسر ذات الدخل المحدود، مما يضمن الازدهار الاقتصادي على المدى الطويل. على الرغم من ذلك، فإن القيود المالية هي واحدة من التحديات الأساسية التي يواجهها أصحاب المشاريع الصغيرة. تعتبر المؤسسات المالية الرسمية أصحاب المشاريع الصغيرة قطاعًا عالي المخاطر وعالي التكلفة في السوق. اعترافًا بالعقبات المالية التي تواجه أصحاب المشاريع الصغيرة، فإن مؤسسات ضرورية لتقديم المساعدة المالية، (AIM) التمويل الأصغر الإسلامية، مثل أمانة اختيار ماليزيا اللازمة وبما يتوافق مع مفهوم الشريعة، لأصحاب المشاريع الصغيرة. كما يتضح من مجموعة متزايدة من الأبحاث، يعتمد نجاح ريادة الأعمال أيضًا على موارد رواد الأعمال الأخرى مثل رأس المال الاجتماعي ورأس المال البشري واستخدام الاتصالات وتقنية المعلومات. وبالتالي هدفت هذه الدراسة إلى دراسة تأثير رأس المال المالي ورأس المال الاجتماعي ورأس المال البشري واستخدام الاتصالات وتقنية المعلومات على أداء أصحاب المشاريع الصغيرة، مع التركيز على مؤسسات التمويل الأصغر الإسلامية في ماليزيا. تهدف هذه الدراسة أيضًا إلى تحديد ما إذا كان الموقع الجغرافي قد قلل من تأثير هذه العوامل على أداء أصحاب المشاريع الصغيرة. شارك في (AIM) ما مجموعه 416 من أصحاب المشاريع الصغيرة كعملاء لأمانة اختيار ماليزيا هذه الدراسة الذين تم اختيارهم من ولايتي سلاڠجور و بهانج، الذين يمثلون المناطق الحضرية في العلاقة (PLS-SEM) والريفية. تحقق المربعات الصغرى الجزئية - نموذج المعادلة الهيكلية بين المتغيرات. وجدت الدراسة أن رأس المال المالي ورأس المال الاجتماعي ورأس المال البشري واستخدام الاتصالات وتقنية المعلومات أثرت بشكل كبير على أداء أصحاب المشاريع الصغيرة. شرح نموذج البحث 38.2% من مقدار التباين الكبير في أداء رواد الأعمال الصغيرة ومستوى معتدل من الصلة التنبؤية. الموقع الجغرافي له تأثير معتدل فقط على استخدام الاتصالات وتقنية المعلومات وأداء أصحاب المشاريع الصغيرة. يمكن أن تقدم هذه الدراسة، كنظرية أساسية في توقع الأداء (RBV) مساهمة نظرية في توسيع الرؤية القائمة على الموارد لا سيما في سياق أصحاب المشاريع الصغيرة في مؤسسة التمويل الأصغر الإسلامية. من حيث المساهمة العملية، ستكون نتائج هذه الدراسة مفيدة لمؤسسات التمويل الأصغر الإسلامية لتطوير خطة عمل أكثر فاعلية لتحقيق أهدافها، مثل تحسين البنية التحتية، وزيادة المعرفة والوعي حول استخدام الاتصالات وتقنية المعلومات، وتحويل استراتيجيات الأعمال إلى

الاقتصاد الرقمي. ستساعد هذه الدراسة أيضاً الحكومة الماليزية في تطوير سياسات فعالة، وبنية تحتية، ومساعدة مالية لأصحاب المشاريع الصغيرة. علاوة على ذلك، يمكن أن تساعد هذه الدراسة الحكومة ومؤسسات التمويل الأصغر في تحديد أنسب التقنيات لأصحاب المشاريع الصغيرة بناءً على أدائهم في المناطق الحضرية والريفية. وهذا من شأنه أن يعيد الجدوى الاقتصادية لماليزيا ويساعد أصحاب المشاريع الصغيرة على فهم أفضل للعناصر الحاسمة التي ينبغي تعزيزها لتحسين أدائهم والحفاظ عليه. ومع ذلك، تقتصر هذه الدراسة على المستجيبين، وبالتالي (AIM) المختارين، وتحديداً أصحاب المشاريع الصغيرة من أمانة اختيار ماليزيا. يمكن أن يتوسع البحث المستقبلي في مجموعة مختلفة من جمع البيانات



APPROVAL PAGE

The thesis of Nur Hazirah Binti Hamdan has been approved by the following:



PROF. DR. SALINA HJ. KASSIM

IIUM Institute of Islamic Banking & Finance (II/IF)

Salina Hj Kassim
Supervisor

Adewale Abideen Adeyemi
Co-Supervisor

Romzie Rosman
Internal Examiner

Ismail Ahmad
External Examiner

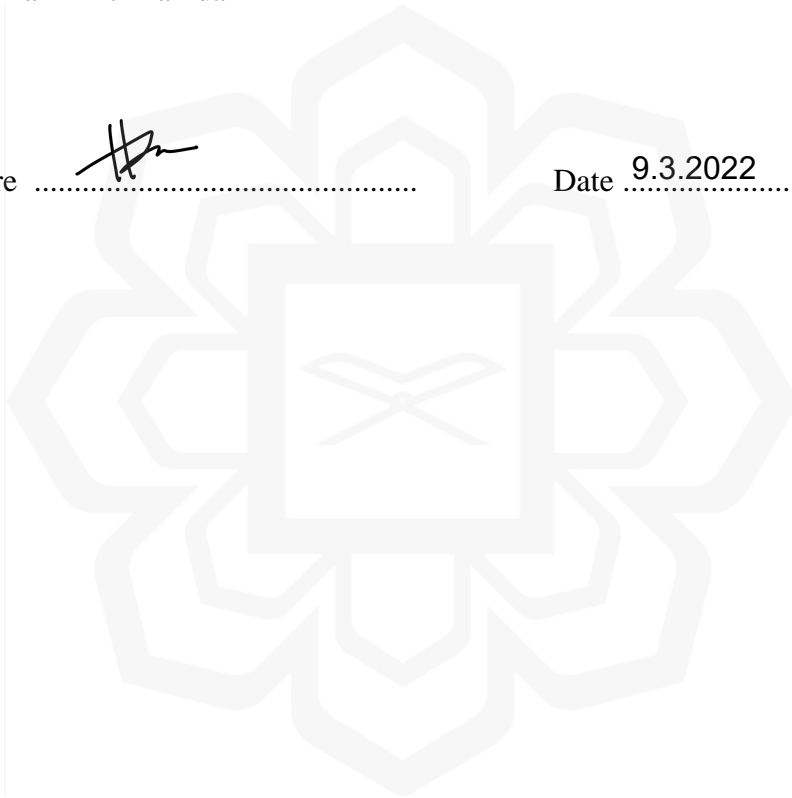
Sohirin Mohammad Solihin
Chairman

DECLARATION

I hereby declare that this thesis is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

Nur Hazirah Binti Hamdan

Signature  Date 9.3.2022



INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA

**DECLARATION OF COPYRIGHT AND AFFIRMATION OF
FAIR USE OF UNPUBLISHED RESEARCH**

**ANALYSIS OF MICRO-ENTREPRENEURS' PERFORMANCE
IN ISLAMIC MICROFINANCE INSTITUTION IN MALAYSIA:
MODERATING EFFECT OF GEOGRAPHICAL LOCATION**

I declare that the copyright holder of this thesis is jointly owned by the student and IIUM.

Copyright © 2022 Nur Hazirah Binti Hamdan and International Islamic University Malaysia.
All rights reserved.

No part of this unpublished research may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without prior written permission of the copyright holder except as provided below

1. Any material contained in or derived from this unpublished research may be used by others in their writing with due acknowledgement.
2. IIUM or its library will have the right to make and transmit copies (print or electronic) for institutional and academic purposes.
3. The IIUM library will have the right to make, store in a retrieved system and supply copies of this unpublished research if requested by other universities and research libraries.

By signing this form, I acknowledged that I have read and understand the IIUM Intellectual Property Right and Commercialisation policy.

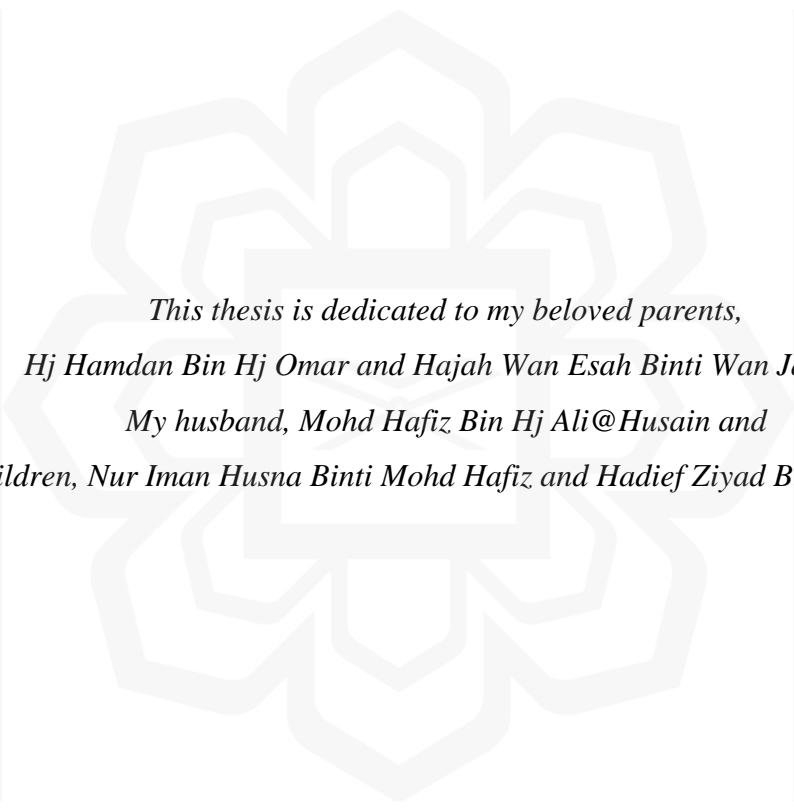
Affirmed by Nur Hazirah Binti Hamdan



Signature

9.3.2022

Date



*This thesis is dedicated to my beloved parents,
Hj Hamdan Bin Hj Omar and Hajah Wan Esah Binti Wan Jaafar,
My husband, Mohd Hafiz Bin Hj Ali@Husain and
My children, Nur Iman Husna Binti Mohd Hafiz and Hadief Ziyad Bin Mohd Hafiz*

ACKNOWLEDGEMENTS

First and foremost, I thank Allah SWT for providing me with the courage to complete this study. This achievement is only possible because of the Almighty's blessing.

I would like to express my gratitude to Prof Dr. Salina Hj Kassim, my supervisor, for providing me with the encouragement and support to complete this thesis. Only Allah SWT can repay you for granting me a second chance to resume studying after losing track for many semesters. Thank you also to my co-supervisor, Assoc. Prof. Dr Adewale Abideen Adeyemi, for your support and encouragement.

I dedicated a special thank you to my husband, Mohd Hafiz bin Hj Ali@Husain, who was very patient in this journey despite many challenges that came my way. To my children, Nur Iman Husna and Hadief Ziyad, both of them are my strength to complete this study. Not to be forgotten, my parents, Hj Hamdan bin Hj Omar and Hajah Wan Esah binti Wan Jaafar, who did not stop praying for me for not giving up in completing this thesis and all the families who support this journey.

To my friends at IiBF (Dr Syara, Dr Hasnida, Dr Zaminor, Dr Iffah, Sr Farhana, Sr Sari), as well as the virtual friends whom I never met face to face but continuously gave support and enthusiasm in this PhD journey, thank you so much for everything. Not to be forgotten, many thanks to Prof Dr Ismail Ahmad, who encouraged me to pursue this study in the first place and continues to pray for my strength throughout this journey.

Lastly, I would like to thank the managerial team of Amanah Ikhitar Malaysia (AIM), Mr Roslan, Mr Rosli, Mr Hafiz, Mr Alba Md Mahadi, Ms Hana, Ms Fiza, Ms Hidayah, and *Sahabat* AIM, who gave full cooperation in data collection for this thesis.

TABLE OF CONTENTS

Abstract	ii
Abstract in Arabic	iii
Approval Page.....	v
Declaration.....	vi
Copyright Page.....	vii
Dedication	viii
Acknowledgements.....	ix
List of Tables	xiv
List of Figures	xvi
CHAPTER ONE: INTRODUCTION	1
1.1 Background of the Study	1
1.2 Problem Statement.....	8
1.3 Motivation of the Study	14
1.4 Research Objectives.....	15
1.5 Research Questions.....	15
1.6 Significance of the Study.....	16
1.7 Scope And Limitation of the Study	17
1.8 Operational Definition.....	18
1.8.1 Financial Capital	18
1.8.2 Social Capital	19
1.8.3 Human Capital	19
1.8.4 ICT Usage	19
1.8.5 Micro-Entrepreneurs' Performance	19
1.8.6 Financial Performance	20
1.8.7 Non-Financial Performance	20
1.9 Organisation of the Study	20
CHAPTER TWO: ENTREPRENEURSHIP, MICRO-ENTREPRENEURS AND MICROFINANCE	23
2.1 Introduction	23
2.2 Concept of Entrepreneurship.....	23
2.3 Micro-Entrepreneurs And Microfinance	25
2.4 Impact Studies of Microfinance.....	32
2.5 Issues and Challenges Faced by Micro-Entrepreneurs.....	35
2.6 Microfinance Institutions In Malaysia.....	38
2.6.1 Differences between Conventional and Islamic Microfinance Institutions	42
2.7 Amanah Ikhtiar Malaysia	44
2.7.1 History of Amanah Ikhtiar Malaysia.....	44
2.7.2 Process of Joining AIM.....	46
2.7.3 Products and Services	47
2.7.4 Financing Contract.....	50
2.7.5 Technology Adoption of AIM's Micro-Entrepreneurs	53
2.7.6 Selected Impact Studies of AIM	55

2.8 Chapter Summary	64
CHAPTER THREE: THEORETICAL FOUNDATION AND EMPIRICAL REVIEW	65
3.1 Introduction	65
3.2 Theoretical Foundation – Resource-Based View (RBV)	65
3.3 Micro-Entrepreneurs’ Performance	70
3.4 Factors Affecting Micro-Entrepreneurs’ Performance	81
3.4.1 Financial Capital	87
3.4.2 Social Capital	91
3.4.3 Human Capital	95
3.4.4 Information and Communication Technology (ICT) Usage	97
3.5 The Role of Geographical Location As Moderating Factor	99
3.6 Identification of Research Gaps	104
3.7 Chapter Summary	106
CHAPTER FOUR: RESEARCH METHODOLOGY	107
4.1 Introduction	107
4.2 Conceptual Framework	108
4.3 Hypotheses Development	109
4.3.1 Financial Capital and Micro-Entrepreneur’s Performance	110
4.3.2 Social Capital and Micro-Entrepreneurs’ Performance	111
4.3.3 Human Capital and Micro-Entrepreneurs’ Performance	112
4.3.4 ICT Usage and Micro-Entrepreneurs’ Performance	114
4.3.5 Moderating Effect of Geographical Location	116
4.4 Research Design	120
4.5 Target Population And Sampling Procedure	123
4.5.1 Population	123
4.5.2 Sampling Procedure	124
4.6 Survey Questionnaire	127
4.6.1 Questionnaire Design	127
4.6.2 Questionnaire Translation	132
4.7 Data Collection Procedure	133
4.7.1 Academicians and Industry Expert Advice (Pre-testing)	136
4.8 Pilot Study	137
4.9 Data Analysis	140
4.9.1 Statistical Analyses using SPSS	140
4.9.2 Statistical Analyses using Structural Equation Model (SEM)	141
4.9.3 PLS-SEM Method	142
4.9.4 Measurement Model	143
4.9.5 Structural Model	146
4.9.6 Moderating Relationship	150
4.10 Summary	152
CHAPTER FIVE: RESULTS AND ANALYSIS OF FINDINGS	153
5.1 Introduction	153
5.2 Data Screening and Cleaning	153
5.2.1 Missing Data	153
5.2.2 Outliers	153

5.3	Assumption Testing.....	154
5.3.1	Normality	155
5.3.2	Normality of Error Terms	155
5.3.3	Linearity	156
5.3.4	Constant Variance-Homoscedasticity	156
5.3.5	Auto-Correlation	157
5.4	Common Method Variance	157
5.5	Demographic Profiles of the Respondents	158
5.6	Descriptive Analysis on Instruments.....	162
5.7	PLS-SEM Approach.....	162
5.8	Measurement Model Assessment	163
5.8.1	Internal Consistency Reliability for First Order Constructs	164
5.8.2	Indicator Reliability for First Order Constructs.....	164
5.8.3	Convergent Validity for First Order Constructs.....	164
5.8.4	Internal Consistency Reliability for Second Order Constructs.....	165
5.8.5	Indicator Reliability for Second Order Construct.....	166
5.8.6	Convergent Validity for Second Order Construct.....	166
5.8.7	Discriminant Analysis.....	167
5.9	Structural Model Assessments.....	168
5.9.1	Assessment of the Collinearity Issues.....	169
5.9.2	Assessment of the Structural Model Relationship (Path Coefficient).....	169
5.9.3	Assessment of the Level of R ² (Coefficient of Determination)	171
5.9.4	Assessment the Level of Effect Size (f ²).....	171
5.9.5	Assessment of the Predictive Relevance (Q ²)	172
5.9.6	Assessment of the Q ² Effect Size	172
5.10	Moderation Analysis.....	176
5.11	Final Structural Model.....	178
5.12	Summary.....	178
CHAPTER SIX: CONCLUSION		180
6.1	Introduction	180
6.2	Summary of Major Findings.....	180
6.2.1	Financial Capital and Micro-Entrepreneurs' Performance in Islamic Microfinance Institution in Malaysia.....	186
6.2.2	Social Capital and Micro-Entrepreneurs' Performance in Islamic Microfinance Institution in Malaysia.....	187
6.2.3	Human Capital and Micro-Entrepreneurs' Performance in Islamic Microfinance Institution in Malaysia.....	189
6.2.4	ICT Usage and Micro-Entrepreneurs' Performance in Islamic Microfinance Institution in Malaysia.....	190
6.2.5	Moderation Role of Geographical Location	191
6.3	Research Implications.....	194
6.3.1	Theoretical Implications.....	194
6.3.2	Methodological Implications	194
6.3.3	Practical Implications.....	195
6.4	Limitation of the Research.....	196
6.5	Recommendations For Future Research.....	197
6.6	Summary.....	197

REFERENCES.....	198
APPENDIX I : AMANAH IKHTIAR MALAYSIA – REGION AND BRANCH.....	232
APPENDIX II : TOTAL NUMBER APPLICATIONS AND APPROVALS.....	233
APPENDIX III : SUMMARY OF ACADEMICIAN AND INDUSTRY EXPERT ADVICE	234
APPENDIX IV : SURVEY INSTRUMENTS.....	235
APPENDIX V : PERMISSION LETTER FOR CONDUCTING RESEARCH SURVEYS TO AIM	251
APPENDIX VI : CHI-SQUARE TABLE	254
APPENDIX VII : NORMALITY TEST FROM SPSS SOFTWARE.....	255
APPENDIX VIII : MARDIA’S MULTIVARIATE.....	256
APPENDIX IX : LINEARITY FOR EACH CONSTRUCT.....	257
APPENDIX X : TOTAL VARIANCE EXPLAINED.....	259
APPENDIX XI : COLLINEARITY STATISTICS.....	260
APPENDIX XII : DESCRIPTIVE ANALYSIS FOR EACH INDICATOR	261
APPENDIX XIII : STRUCTURAL MODEL ASSESSMENT	263
APPENDIX XIV : DETERMINING SAMPLE SIZE.....	264



LIST OF TABLES

Table 1.1	Definitions of Micro, Small and Medium Enterprise in Malaysia	2
Table 2.1	Characteristics of Individual Lending, Village Banking, and Group Lending MFI	32
Table 2.2	The Analysis of the Challenges Affecting Micro-Entrepreneurs' Performance	36
Table 2.3	Types of MFI in Malaysia	41
Table 2.4	Differences between Islamic and Conventional MFIs	44
Table 2.5	Products and Services of AIM	49
Table 2.6	Selected Impact Studies of AIM (2011-2020)	58
Table 3.1	Measurement of Financial and Non-financial Performance for Micro-Entrepreneurs	76
Table 3.2	Summary of Factors Affecting Micro-Entrepreneurs' Performance (2015-2020)	86
Table 3.3	Percentage Distribution of Internet Access Using Mobile Phone	98
Table 4.1	Location of State and Branch	126
Table 4.2	Measurement Items for Financial Capital	128
Table 4.3	Measurement Items for Social Capital	129
Table 4.4	Measurement Items for Human Capital	130
Table 4.5	Measurement Items for ICT Usage	131
Table 4.6	Measurement Items for Financial and Non-Financial Performance	132
Table 4.7	Data Collection - Distribution of Questionnaires	135
Table 4.8	Demographic Information for Pilot Study (n=30)	138
Table 4.9	Cronbach's Alpha for Pilot Study	140
Table 4.10	Rule of Thumb in Selecting between CB-SEM and PLS-SEM	141
Table 4.11	Summary of Indices for Measurement Analysis	146

Table 4.12	Summary of Indices for Structural Model	150
Table 5.1	Cook's Distance Value	154
Table 5.2	Demographic Profiles of Respondents	160
Table 5.3	Results Summary for Measurement Models for the First Order Constructs	165
Table 5.4	Results Summary for Measurement Models for the Second Order Constructs	167
Table 5.5	Discriminant Validity HTMT	168
Table 5.6	Lateral Collinearity Assessment	169
Table 5.7	Hypotheses Testing Results	170
Table 5.8	R ² (Coefficient of Determination)	171
Table 5.9	Effect Size (f ²)	172
Table 5.10	Effect Size of q ²	173
Table 5.11	Summary of Structural Model	174
Table 5.12	Result of the Moderating Effect of Geographical Location	177
Table 6.1	Summary of Major Findings	182

LIST OF FIGURES

Figure 1.1	Organization of the Study	22
Figure 2.1	Consolidated Model of Entrepreneurial Processes Affecting National Economic Growth Source: Reynolds, Hay & Camp (1999, p. 11)	25
Figure 2.2	Number of AIM's Clients	46
Figure 2.3	Commodity Murabahah in AIM	52
Figure 3.1	Conceptual RBV Framework	66
Figure 4.1	Proposed Conceptual Framework	108
Figure 4.2	Research Onion	120
Figure 4.3	Population Determination	124
Figure 4.4	Stratified Random Sampling	125
Figure 4.5	Procedures in the Measurement Model	144
Figure 4.6	Procedures in the Structural Model	147
Figure 5.1	Normality of the Error Terms	156
Figure 5.2	Constant Variance-Homoscedasticity	157
Figure 5.3	HCM for First Order Constructs and Second Order Constructs	163
Figure 5.4	Results of the Structural Model (Direct Effect – Second Order Constructs)	175
Figure 5.5	Interaction Plot	177
Figure 5.6	Final Model for the Present Study	178

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The importance of micro, small, and medium-sized enterprises (MSMEs) in national economies and their worldwide reach is widely recognised, given their volume dominance on the global market stage (ICSB Annual Global Micro Small and Medium Sized Enterprises Report, 2020). Micro-enterprises, combined with small and medium enterprises (SMEs), comprise the leading business group. In certain nations, micro-enterprises account for more than 90% of overall business establishments, as shown by India's 99.4 %, Indonesia's 98 %, and Thailand's 99.54 % in 2019 (OECD, 2020). Since micro-enterprises account for the majority of total business establishment in several countries, micro-enterprises' operations contribute significantly to economic development in these countries.

Similarly, in Malaysia, micro-enterprises have emerged as a key driver of economic development. Micro-enterprises in Malaysia follow the definition provided by Malaysian SME corps based on two criteria: full-time employees and annual sales turnover. As shown in Table 1.1, micro-enterprises are defined as establishments with less than five employees and a sales turnover of less than RM 300,000 in the manufacturing, service, and other sectors. However, if any of these criteria is exceeded, consideration will be handed over to the lowest.

Table 1.1 Definitions of Micro, Small and Medium Enterprise in Malaysia

Category	Manufacturing	Services & Others
Micro	Sales Turnover Less than RM300, 000	Sales Turnover Less than RM300,00
	OR	OR
	Less than five employees	Less than five employees
Small	Sales Turnover between RM300, 000 & RM15 million	Sales Turnover between RM300, 000 & RM3 million
	OR	OR
	Employees between 5 & 75	Employees between 5 & 30
Medium	Sales turnover between RM15 million & RM50 million	Sales Turnover between RM300, 000 & RM20 million
	OR	OR
	Employees between 75 & 200	Employees between 30 & 75

Source: SME Corporation Malaysia (2013)

According to the National Economic Census (2016), Malaysia has 920,624 registered business entities, including 907,065 (98.5 %) micro, small and medium-sized enterprises. Micro-enterprises accounted for 693,670 (76.5%), small businesses for 192,783 (21.2%), and medium businesses for 20,612 (2.3%). As a result, micro-enterprises, together with small and medium-sized businesses, make up a large portion of the economy's sectors.

Further along, most services industry is found in micro establishments, making up beyond 80.2 % of SMEs. Additionally, micro businesses are prevalent among the agriculture and construction industries with 47.6 % and 44.3 %, respectively. The manufacturing industry closely follows the micro-enterprises contributing 46.3 % (Economic Census: Profile of SMEs, 2016). This makes micro-enterprises account for the substantial share of the country's total SMEs, employment, and gross domestic product (GDP). However, in the midst of the global community's current health crisis and COVID-19's influence on many sectors, there is a glimmer of hope of flourishing of adoption of new standards, including growth on e-commerce platforms (Fabeil, Pazim, & Langgat, 2020; Hamdan, Kassim, & Lai, 2021).

In the National Entrepreneurship Policy (2030), one of the Strategic Trust's objectives is to strengthen MSMEs' entrepreneurial capabilities and performances. This strategy outlines Malaysia's long-term goal of becoming a world-class entrepreneurial nation by 2030 (Ministry of Entrepreneur Development and Cooperatives, MEDAC). Various ministries and agencies play their respective roles in collaborating and synergising to conduct 153 entrepreneurial development programs costing RM13.7 billion, benefitting 637,808 participants (SME Integrated Action Plan (SMEIPA) Report, 2019). Accordingly, Malaysia's trend and pattern are gearing towards entrepreneurship development.

Despite the broad acknowledgement of the importance of micro-enterprises to national economies, they continue to pose challenges to entrepreneurship development that need to be addressed. Numerous studies have shown that significant problems confronting micro-enterprises in their operations are related to financial access (Civelek, Kljucnikov, Kristofik, & Rozsa, 2019; Ismail, 2014; Mohamad Sabli & Sebli Joney, 2020; Mohd Thas Thaker, 2015; Muda & Tuan Lonik, 2020; Yaacob & Azmi, 2015).

Many micro-enterprises owners or micro-entrepreneurs face barriers to financing access, mostly from formal financial institutions, due to their perception as a high-risk and high-cost service market sector (Duasa & Mohd Thas Thaker, 2016; Duc, Marriott, & Marriott, 2008). Among the factors that preclude them from obtaining financial assistance are a collateral requirement, high financial cost, difficulty in providing business information, unavailability of business transactions records, and lastly, non-present of future business planning (Hassan, Alam, & Rahman, 2015; Thambiah, Muthaiyah, & Jun, 2016).

Indeed, these challenges are exacerbated for micro-entrepreneurs from low-income groups and the impoverished segment. These groups associated with poverty have remained a significant problem for a vast proportion of the population globally (Mohamed & Fauziyyah, 2020; Zainol, Al Mamun, Ahmad, & Simpong, 2018). This matter is also highlighted in the United Nations 2030 sustainable development agenda, which calls for immediate action to eliminate poverty in all forms and manifestations,

including extreme poverty, in developed and developing countries (United Nations, 2015). Similarly, with 17 sustainable development goals (SDGs) guiding the national plan and a long-standing relationship with the United Nations, Malaysia is fully committed to achieving these goals. Thus, engaging in entrepreneurship may reduce poverty by generating employment, expanding existing businesses, and growing wealth, resulting in better living standards for the population (Hussain, Bhuiyan, & Bakar, 2014; Korosteleva & Stepien-Baig, 2020).

Additionally, the Malaysian government offers various funding schemes, one of which is a microfinance programme. Microfinance was suggested as a means of eradicating poverty by providing low-income earners with loans to support small businesses, thus enabling borrowers to strive toward economic self-sufficiency (Ahmad Nadzri, 2016). Muhammad Yunus is an economics professor from Bangladesh who pioneered microfinance by applying changed economic ideas to underprivileged communities in 1974. Grameen Bank was established in 1976 as the world's first microfinance institution (MFI). Grameen Bank's mission is to provide modest loans to low-income people to allow self-employment (Muridan & Ibrahim, 2016).

In Malaysia, several MFIs and non-banking government agencies, including the Economic Fund for National Entrepreneurs Group (TEKUN), Permodalan Usahawan Nasional Berhad (PUNB), Yayasan Usaha Maju (YUM), and Amanah Ikhtiar Malaysia (AIM), have administered microfinance programmes. AIM is one of the non-governmental organisations (NGOs) and Islamic microfinance institutions (IMFIs) in Malaysia that replicated Grameen Bank's group lending strategy (Bakar, 2016; Mohamed Isa, 2017). It was founded in 1988 as an IMFI focused on poverty, providing finance to the needy in accordance with the Trustee Incorporation Act 258 (updated 1981) (Haque, Siwar, Ghazali, & Bhuiyan, 2018). AIM is currently Malaysia's pioneer and leading Islamic microfinance institution. It has been named "Best Islamic microfinance institution" for six consecutive years from 2013 to 2019 at the Global Islamic Finance Awards (GIFA) (AIM, 2019).

Throughout more than three decades of providing financing services, the success of AIM can be seen in their repayment rate, which was more than 98 % in 2019

(AIM, 2019). Additionally, the default rate is the lowest of all microfinance organisations, including TEKUN and YUM, which operate under the concept of individual lending (Nawai & Mohd Shariff, 2010). As of June 2019, this institution has 304, 569 active clients and a repayment rate of 98.71 %. AIM presently has 136 branches in 30 districts throughout the country. AIM intends to attract 400,000 credit clients by the end of the year to take advantage of the RM2.5 billion allocation, an RM300, 000 increase over last year. As of mid-2019, the total allocation has a surplus of RM1.69 billion. The allocation is also available to women debtors with family incomes of up to RM3,800, also referred to as the B40. The increasing microfinance industry reflects the government's goal of reaching 40 % of the underprivileged community (AIM, 2019).

As one of Islamic banking and finance offshoots, Islamic microfinance has met the requirements of *Maqasid Al-Shari'a* (Islamic law's underlying aims) as advocated by religion (Alkhan & Hassan, 2021). Islamic microfinance empowers five key pillars of *Maqasid Al-Shari'a* pertaining to an Islamic economy and *Mal* (wealth): poverty alleviation (Ash-Shubail, 2015), economic enhancement (Al-Qura Daghi, 2011), social enhancement (Al-Qura Daghi, 2011), wealth equality and circulation (Al-Qaradhawī, 2008) and society's intellectual intensification (Al-Qura Daghi, 2011).

These objectives undoubtedly can also be achieved via conventional microfinancing. However, conventional microfinance providers are likely to accept *Riba'*, which is prohibited in Islamic microfinance. Therefore, one of the central and main prohibitions in Islamic finance is the engagement in *Riba'* (interest or usury) distinguished between Islamic and conventional microfinance (Alkhan, 2016; Ayub, 2007). Similarly, the AIM's business operations as the most prominent Islamic microfinance institution in Malaysia is in accordance with Islamic finance's objectives. In other words, the financial products offered include *Tawarruq* (Commodity *Murabahah*, *Wakalah*, *Wa'd* and *Ibra'*), adhere to *Shari'a* principles (AIM, 2022b).

Usury-based practices are prohibited and a major sin in Islam; implementing or engaging in *Riba'* will have a detrimental effect on society, involving a negative distribution of justice and equity (Alkhan, 2016; Khan, 1986; Visser & McIntosh,

1998). Simply stated, according to the arguments, a usury-based economy enriches and empowers the wealthy while impoverishing and depressing the underprivileged. This may be even more factual in conventional microfinancing, given that microfinance clients are typically the poor. They generally are charged high-interest rates that inevitably burden them economically; they are desperate to borrow money despite the high-interest rates for business or survival (Hassan, Kayed, & Oseni, 2013). For micro-entrepreneurs who are often impoverished and do not fulfil specific criteria for borrowing money, excluding them from conventional financial services encourages them to reach out to Islamic microfinance providers in order to avoid falling prey to interest-based schemes, increasingly impoverishing, particularly as interest capital increases with each passing day. Thus, the effect of high interest rates on microfinance schemes would undoubtedly be counterproductive (Hassan et al., 2013, p.333).

Numerous research has been carried out globally, showing that Islamic microfinance has a beneficial effect on the socio-economic status of poor and low-income groups (Hassan, Alam, & Rahman, 2015; Muda & Tuan Lonik, 2020; Samer, Majid, Rizal, Muhamad, et al., 2015). Muda and Tuan Lonik (2020) discovered that AIM's beneficial effect on successfully increasing the income level of its clients was discovered via a study of 13 journals in Scopus, Sciences Direct, Ebscohost, and SpringerLink. The research discovered that long-term AIM members earned more than new AIM members, indicating that their continued involvement in the AIM microfinance programme would benefit them more. This was followed by participants in the AIM microfinance scheme increasing their asset ownership after their enrollment in the programme. Other economic consequences may be observed in participants' economic vulnerability and expenditure. This result is corroborated by previous research indicating that microfinance benefits its clients economically (Das, 2017; Tambe et al., 2017).

It is well recognised that IMFIs play a critical role in providing financial support to low-income groups and serving the "unbankable" sector of society, as well as being a valuable weapon in the battle against poverty (Hassan et al., 2015). Micro-entrepreneurs who acquire financial resources from IMFIs will contribute to the country's economic growth. This involves raising the poor's quality of life,

guaranteeing equitable income distribution, creating new businesses, and increasing the poor's well-being (Nordin, Abdul Khalid, & Kamalia, 2019). Indeed, sustaining and promoting the development of micro-entrepreneurs benefits MFIs as it closely correlates with planned financing repayment being made on time, thus reducing financing defaults. This achievement will contribute to the long-term viability of MFIs. This is critical considering MFIs must be financially self-sufficient and not rely on government support (Mohd Nor & Kumar, 2019).

Nonetheless, entrepreneurial success is not contingent on financial capital obtained from microfinance, but micro-entrepreneurs have a range of complex needs that extend beyond credit. Nordin et al. (2019) argued that additional aspects of facilitating the instillation of entrepreneur resources must be addressed. Among the impediments that micro-entrepreneurs have in sustaining and growing their businesses include a low level of literacy, a lack of managerial skills and expertise, a low level of IT use, and a limited social network (AlBar & Hoque, 2017; Nugroho & O Hara, 2015). According to Mohd Thas Thaker and Mohammed (2015), many micro-entrepreneurs have a low level of education, expertise, and skills, especially in business management. This component of human capital is critical for the development and sustainability of micro-entrepreneurs' businesses. Furthermore, failing to provide enough training to micro-entrepreneurs would lock them in persistent poverty due to business failure and a mountain of debt (Yostrakul, 2018).

Additionally, as technology advances at a breakneck pace, micro-entrepreneurs who use information and communication technology (ICT) offer their businesses an edge over the competition and increase their chances of success and profit (Anwar, Djawad, & Ridwansyah, 2019). ICT may be regarded as a catalyst for the effectiveness of any firm, even micro-businesses, by increasing business advantages and building skills (Werber, Rajkovic, Urh, & Znidarsic, 2015; Ong, Habidin, Salleh, & Fuzi, 2020). Njau and Njuga (2015) said that ICT provides business owners with direct access to marketing possibilities, increasing customer value and industry competition.

Additionally, micro-entrepreneurs that rely on ICTs for business operations or utilise ICTs as the primary input for creating new goods and services are becoming

more prevalent in developing nations (Anwar et al., 2019). Moreover, NEP 2030 emphasised that technology is unquestionably a focal point of different entrepreneurship development programmes that foster entrepreneurs' growth via resilient and profitable businesses. On the other hand, small-entrepreneurs and ICT studies are uncommon compared to their larger counterparts. Many studies have focused on entrepreneurship as an urban phenomenon, leaving rural regions unresearched (Islam, Habes, & Alam, 2018).

Accordingly, understanding the above issues would assist IMFIs and government agencies involved in microfinance and microentrepreneurial in developing design their financing programmes more effectively. As a source of employment, micro-entrepreneurs effectively alleviate poverty and boost economic growth.

1.2 PROBLEM STATEMENT

For most countries, in the economic growth and development, whether in the formal or informal industries, entrepreneurship activities have a vastly noticeable impact on the industry. As with SMEs, micro-enterprises as engines of indigenous entrepreneurship often contribute to global economic development by improving technical competence, innovation diffusion, and mobilising resources (Nabiswa & Mukwa, 2017). Al Mamun, Saufi and Ismail (2016) noted that economic activities via micro-enterprises might contribute to Malaysia's national development, with almost 1.3 million people (9.7 % of the entire working population) actively engaged in micro-economic operations.

Despite their contribution to the growth of Malaysia's economy, micro-enterprises confront many difficulties in order to stay competitive and thrive (AlBar & Hoque, 2017; Mata & Ibrahim, 2020; Nugroho, 2015). Thus, understanding the obstacles may assist in the success and survival of micro-entrepreneurs. Furthermore, according to the GEM report on women entrepreneurship (2018/2019), two-thirds of new business establishments survive at least two years, 44 % survive for at least four years, and only around 4 % proliferate (GEM Report, 2019).