

Nexus between Islamic Microfinancing and Financial Wellbeing of Micro-Entrepreneurs during the Covid-19 Pandemic in Malaysia

Nik Hadiyan Nik Azman
Mohd Zaidi Md Zabri
Ema Izati Zull Kepili
Universiti Sains Malaysia

ABSTRACT

Islamic microfinance is expanding and penetrating its potential market over the globe. Access to credit or financing, especially during the COVID-19 pandemic, is vital for micro-entrepreneurs in climbing the socio-economic ladder that will contemporaneously increase their household income. In Malaysia, most of the MEs can hardly access financing from formal financial institutions due to poor credit rating, having zero to little collateral, income instability, small loan amounts, and high transaction costs. Alternatively, MEs approach Islamic microfinance institutions for their financing solution. Therefore, this study intends to investigate how far the utilization of Islamic microfinancing by MEs could enhance their quality of life. One hundred seven (107) usable questionnaires were analysed via the Structural Equation Modelling (SEM) AMOS using IBM® SPSS and found that both investment and expansion factors played key roles in affecting the financial wellbeing of the micro-entrepreneurs. The results lend credence to the positive effect of Islamic microfinance products may have on MEs and indirectly support the long-term economic development for MEs. This study deliver implication to various angles. In practical part, it opens the eyes of micro-entrepreneurs to opt for the right path (expansion and investment) to achieve financial wellbeing. Government (regulators) can enhance the ability of Islamic microfinancing as a tool towards financial wellbeing and in theoretical part, this study deepens the scope of Schumpeter's theory by inculcate this theory with Islamic finance scope of study.

Keywords: Islamic microfinance; financial wellbeing; micro-entrepreneurs

ABSTRAK

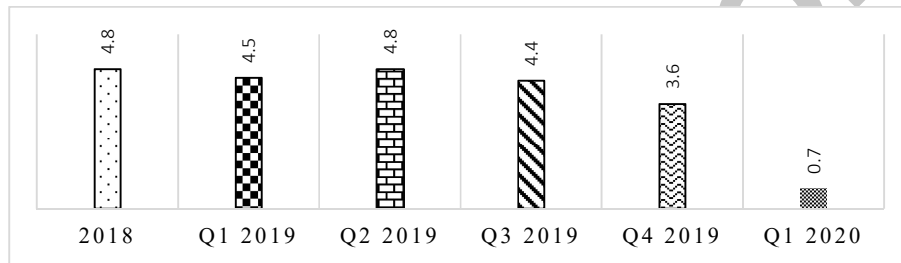
Pembiayaan Islam mikro berkembang dan menembusi pasaran potensinya di seluruh dunia. Pada masa ini, terdapat lebih daripada 300 institusi kewangan Islam mikro di 32 negara. Akses kepada kredit atau pembiayaan, terutamanya semasa pandemik COVID-19, sangat penting bagi pengusaha mikro dalam menaiki tangga sosio-ekonomi yang akan meningkatkan pendapatan isi rumah mereka secara serentak. Di Malaysia, kebanyakan ME hampir tidak dapat mengakses pembiayaan dari institusi kewangan formal kerana penilaian kredit yang lemah, tidak mempunyai cagaran, ketidakstabilan pendapatan, jumlah pinjaman yang kecil, dan kos transaksi yang tinggi. Sebagai alternatif, ME mendekati institusi kewangan Islam mikro untuk penyelesaian pembiayaan mereka. Oleh sebab itu, kajian ini adalah bertujuan untuk mengkaji sejauh mana penggunaan pembiayaan Islam mikro oleh ME dapat meningkatkan kualiti hidup mereka. Seratus tujuh (107) soalan kaji selidik yang boleh diguna pakai dianalisis menggunakan Pemodelan Persamaan Struktural (SEM) AMOS menggunakan IBM® SPSS dan mendapati bahawa kedua-dua faktor pelaburan dan pengembangan memainkan peranan penting dalam mempengaruhi kesejahteraan kewangan oleh pengusaha mikro. Hasil kajian memberi kesan positif produk kewangan Islam mikro terhadap ME dan secara tidak langsung menyokong perkembangan ekonomi jangka panjang bagi ME. Kajian ini memberikan implikasi kepada pelbagai sudut. Secara praktikal, ia membuka mata pengusaha mikro untuk memilih jalan yang betul (pengembangan dan pelaburan) untuk mencapai kesejahteraan kewangan. Kerajaan (pengawal selia) dapat meningkatkan kemampuan pembiayaan Islam mikro sebagai alat untuk kesejahteraan kewangan dan dalam aspek teoritikal, kajian ini memperdalam ruang lingkup teori Schumpeter dengan menanamkan teori ini dengan skop kajian kewangan Islam.

Kata Kunci: Pembiayaan Islam mikro; kesejahteraan kewangan; usahawan mikro

INTRODUCTION

Coronavirus 19 (henceforth referred to as COVID-19) is a pandemic that has spread worldwide. Currently, there are about 200 countries affected by COVID-19 and has claimed over 1 million lives). This virus is something that the world perhaps has never encountered before, and at the time of the writing, there is no vaccine for it yet. Scientists in different countries, including China, the United States of America, the United Kingdom, and Japan, are currently racing against time to develop a vaccine (Sandbu, 2020). To contain the spread of COVID-19, the governments have imposed movement restrictions, and in extreme cases, total lockdowns. This has led to the shutdown of financial markets, corporate offices, businesses, and deferment of significant events – one of which is the Tokyo 2020 Olympics. This direct and indirectly gave a multidimensional impact on a country. Besides health, arguably, COVID-19 has a far-reaching, devastating outcome on the world's economies. Several economists went even further, coining terms such as 'Coronomics' (Eichengreen et al. 2020) and 'Black Swan' (Mazur, Dang, and Vega, 2020).

Currently, COVID-19 has massively impacted G-7 countries, which constitutes 60% of the world's demand and supply (GDP), 65% of the world's manufacturing, and 41% of the world's manufacturing exports (Sandbu, 2020). Therefore, as these economies are now severely affected, the rest of the world will follow suit. And as a trading nation, Malaysia is of no exception. This can be shown in the sharp decline of its growth domestic product (GDP), from 3.6% in Q4 2019 to 0.7% in Q1 2020 (Figure 1). Thus, micro-entrepreneurs in Malaysia have gone into 'survival mode' due to the weak consumer sentiment.



Source: Department of Statistics (2020)

FIGURE 1. Malaysia's growth domestic product (2020)

Entrepreneurs contribute significantly to the Malaysian economy. A case in point, according to the Department of Statistics Malaysia (2020), entrepreneurs significantly contribute to Malaysia's gross domestic product growth or GDP. Barring two years (1998 and 2009), the GDP lines (in percentage) are positive from 1997 to 2017. Although the Malaysian economy continues to register positive GDP growth, there were at least two recession cycles (2007 to 2009 and 2014 to 2016). However, this decline can be mainly attributed to Malaysia's largest trading partner, the United States, which experienced economic downturns that forced their import demands to be lower. Decreasing demand for Malaysian exports subsequently triggered the Malaysian economy to register below-than-expected GDP figures. Therefore, during this COVID-19 pandemic, there is an urgent need to roll out as much support as possible to ensure the sustainability of micro and small enterprises (Hassan et al., 2021). Notwithstanding, despite a series of downturns (a series of economic crises and pandemics), the small and medium enterprises (SME) continue to be the key driver of the Malaysian economy. According to Table 1, there is increasingly number of individuals becoming entrepreneurs. Interestingly, the MEs constitute most of the number of SME (76.24%), and to a certain extent, this group plays an increasingly important role in the economy (Fuad & Bohari, 2011; Darmansyah et al. 2013).

TABLE 1. Census of establishments and enterprises 2011 and 2016

Type/ Census	Census of Establishments and Enterprises 2011	Census of Establishments and Enterprises 2016	Growth (%)
Micro	496,458	691,527	6.60
Small	128,787	192,013	12.28
Medium	19,891	23,525	21.99
Total	645,136	907,065	8.12

Source: Department of Statistics (2020).

In Malaysia, according SME Corporation Malaysia (2021), micro-enterprises (MEs) is defined based on two categories: (1) the manufacturing category, which number of full-time employees should be less than 5 and sales turnover

less than RM 300,000 and (2) category is services and other sectors which number of full-time employees should be less than 5 and sales turnover less than RM 300,000.

However, if one of MEs' criteria exceeds the minimum requirement, then the lowest criterion will be given priority. Surprisingly, although MEs are a significant contributor to Malaysia's GDP (41% to Malaysian GDP in 2020), they still have trouble accessing financing due to a myriad of factors such as the non-existence of a business track record, weak credit rating, and lack of collateral, and poor documentation. Obstacles in getting funds from commercial banks have been found to demotivate MEs (Darmansyah et al. 2013). Apart from that, researchers such as Saleh and Ndubisi (2006), Westover (2008), Alamgir et al. (2011), Darmansyah et al. (2013), and Abbas, Abdul Razak, and Md Saad (2014) found that formal financial institutions tend to take longer time, usually around three to six months to disburse the loans or financing. Besides, they impose a relatively high cost of borrowing as well as high legal documentation fees (Abbas et al. 2014).

As an alternative to banking and financial institutions in accessing cash, MEs are encouraged by Bank Negara Malaysia (2019) to approach microfinancing institutions instead. According to Ahmad (2011), Islamic microfinancing extends financial facilities to clients with low-income levels without charging interest or *riba*. As mentioned by Md Saad and Duasa (2010), there are a few characteristics of Islamic microfinancing. Firstly, it offers reasonable service charges. Secondly, it has speedy and straightforward evaluations. Finally, it has flexible payment plans. As suggested by Obaidullah and Khan (2008), Islamic microfinancing should provide *qard al hasan* which imply the interest-free loan initiative, design a credit guarantee scheme for Islamic microfinance providers, and promoting dialogue among shari'ah scholars on *fiqh* (Islamic law) issues related to microfinance.

In Malaysia, there are few, notable Islamic microfinancing institutions such as Majlis Amanah Rakyat or MARA (established in 1966), Yayasan Pembangunan Ekonomi Islam Malaysia or YaPEIM (est. 1993), Amanah Ikhtiar Malaysia or AIM (est. 1987), Tabung Ekonomi Kumpulan Usaha Niaga or TEKUN (est. 1993) and *Ar-rahnu* in 1992.¹ Different Islamic microfinance schemes are offered to MEs in Malaysia to fit the specific needs at different stages of growth (Table 2). In general, these microfinance institutions aim to assist MEs (particularly women MEs) in accessing cash or expanding their business (Nik Azman et al. 2016). This Islamic microfinancing has proven to increase MEs' liquidity. Apart from that, these studies also found that Islamic microfinancing to have a positive impact on financial growth—an increment in terms of revenue, profit, and retained earnings.

TABLE 2. Microfinance institutions in Malaysia

	Majlis Amanah Rakyat (MARA)	Amanah Ikhtiar Malaysia (AIM)	Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN)	Islamic Pawnshop (<i>Ar-rahnu</i>)
Year of Existence	1966	1987	1993	1992
Scheme Offered	Skim pembiayaan perniagaan	Skim pembiayaan ikhtiar	Skim Tabung Ekonomi Kumpulan Usaha Niaga	Pawn scheme
Target Group	Bumiputera ² entrepreneurs	The poorest among the low-income groups	Bumiputera MEs	Customers with collateral (gold)
Age Limit	18-60 years	18 years and above	18-60 years	18 years and above
Loan Amount	No minimum Maximum RM 50,000	No minimum, maximum RM 20,000	Minimum RM 500 Maximum RM 30,000	No minimum, maximum RM 50,000 (based on collateral value)
Loan Period	No Minimum Max: 5 years	Min: 6 months Max: 3 years	Min: 6 months Max: 5 years	No Minimum Max: 6 months
Loan Processing Period	35 days	About 3 weeks	First loans: 45 days Further loan: 30 days	5-10 minutes
Repayment Period	5% profit rate per annum	Weekly	Weekly or Monthly	Weekly or Monthly suit to customer ability

¹ MARA stands for People's Trust Council, TEKUN stands for the National Entrepreneur Group Economic Funds

² Bumiputera or Bumiputra is from a Sanskrit word *Bhumiputra*; in which being translated literally means the "son of the Earth". In Malay, it is being translated literally as "princes of the Earth". This arise from the official definition which is widely used in Malaysia whereby it takes up ethnic Malays as well as other indigenous ethnic groups such as the Orang Asal in Peninsular Malaysia and the tribal people in Sabah and Sarawak. In Malaysia, by convention, it is generally considered that all Malays are Bumiputeras (Marimuthu, 2010)

Service Charges	5-6% (per month)	10% (per month)	1-8% (per month)	Highly dependent on the <i>Ar-Rahnu</i> providers and loan margin. Usually, the service charges for RM100 worth of <i>marhun</i> are RM0.75 per month.
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Source: Author's compilation (2020).

Reported by Bank Negara Malaysia (2017), the number of entrepreneurs applying for Islamic microfinancing is on the rise. Besides, the national poverty line income (PLI) has been revised recently from RM908 to RM2,208, putting 405,441 households below the PLI in 2019. Theoretically, when the number of bottom-line communities increases, it will directly increase microfinancing use, more so during this COVID-19 pandemic. These developments motivate the researchers to investigate how far utilising Islamic microfinancing by MEs could enhance their quality of life (financial wellbeing), especially during the COVID-19 pandemic.

LITERATURE REVIEW

BACKGROUND THEORY

The relationship between financial development and economic growth has been studied for several decades by scholars such as Schumpeter (1934), McKinnon (1973), Shaw (1973), Summers, Kravis, and Heston (1984), Lindert and Williamson (1985), Kuznets (1955), Pardo and Sánchez Santos (2014), Akinboade et al. (2014) and Haan and Sturm (2017). This idea is proposed by Kuznets, one of the pioneers of the income inequality theory. Kuznets' theory highlights the effect of income-on-income inequality. Even today, this nexus is still being extensively studied by scholars as it has been recognised as a crucial element for economic development, as well as having a direct impact on policymakers. Today, globalisation provides the businesses with the ability and, more importantly, the platform to market products and services worldwide. It facilitates partnerships and alliances, which is becoming a critical success factor in today's business.

Theoretically, the initial financial development position is to narrow down the income gap, enhance economic growth and enrich the financial wellbeing. Based on the finding suggested by Galor and Zeira (1993) and Banerjee and Newman (1993), the development of the Islamic microfinancing sector will incorporate micro-entrepreneurs into the financial stream. Such a financial system might provide equal opportunities and ambitious low-income individuals (Law and Tan, 2009). Consequently, income inequality decreases with the development of the financial sector, that will inevitably lead to financial wellbeing.

Since this study deals with entrepreneurship, the Schumpeter theory developed in 1934 on entrepreneurship could be another theory that can be applied. Schumpeter posits that financial wellbeing requires entrepreneurs (who combine an asset, including new technologies) to create profitable ventures by introducing new products, proposes unique value propositions, and/or develop a new marketing strategy. Subsequently, entrepreneurs will create new investment opportunities, offer a variety (diversification) of products and services, and increase business (expansion). This entrepreneurial development would create jobs, address the unemployed problem, and indirectly improve living standards among poor people (Sledzik, 2013; Mehmood et al., 2019).

PREVIOUS STUDIES

The existing literature on Islamic microfinance within the context of financial wellbeing is relatively sparse. However, few studies that delve into this subject matter find several positive effects of Islamic microfinancing. For example, Hamidah et al. (2017) found that access to Islamic microfinancing funds significantly affects the financial wellbeing of micro, small, and medium enterprises (MSME) in East Java, Indonesia. Besides, Hussaini (2017) reports that Islamic microfinance is an effective tool in reducing the extreme nature of poverty in northern Nigeria by providing interest-free credits to the disadvantaged but economically active population. Henceforth, this study proposed three Islamic microfinancing effects on financial wellbeing, i.e., diversification, expansion, and investment. Detailed explanations of these effects are elucidated in the following sections.

DIVERSIFICATION

Diversification means increasing choices of products and reducing the dependency on a limited number of products. Previous studies that investigated diversification were carried out by Malizia and Ke (1993), Wagner and Deller (1998), Trendle and Shorney (2003), and Woerter (2009). These studies found that diversification has a positive impact on financial wellbeing. In fact, in several instances, product diversification can lead to higher economic growth (financial wellbeing) (Syrquin & Chenery, 1989; Nowak-Lehmann et al., 2012; Hesse, 2009). Besides, product diversification is essential to cater to domestic market's peculiarities (e.g., taste, culture, age, and gender). Therefore, entrepreneurs or specifically MEs need to differentiate their products and services in terms of functionalities, taste, design, ingredients, quality, and appearance. To do so, it requires one of the chief obstacles for MEs – capital. To solve this limitation, MEs then approach Islamic microfinancing. Consequently, Islamic microfinancing has the potential to increase its recipients' income while enabling them to broaden their business activity and increase the quantity of the goods they sell (Hassan et al., 2017). In short, the financing from Islamic microfinance institutions assists MEs to diversify products and services (Nik Azman et al., 2016; Amin, 2011; Ismail, 2007). Therefore, this study hypothesis that:

H1: Diversification has significant and positive impact towards financial wellbeing.

EXPANSION

Expansion refers to increasing the number of branches in which customers can buy a company's products and services. In other words, business expansion entails opening a new store in different physical locations while maintaining the current business location. Hypothetically, access to Islamic microfinancing will enable MEs to set up a store (if they have yet to have one) and expand their business by operating in several branches. The primary purpose of engaging in expansion-related activities is to acquire and, more importantly, retain customers. Besides, MEs will also benefit from the spillover effects usually associated with economies of scale. Increased demand for MEs products will induce an expansion of their business and respond positively to financial wellbeing (Levine et al., 2000). The bigger the business, the lower the costs per unit over a product. It will then allow the MEs to enhance their business output (creating more productivity out of the employees) and convert the business from traditional to more profitable businesses (Al-Shami et al., 2014). According to Nik Azman et al. (2016), business expansion has a significant relationship with financial self-sufficiency and simultaneously impacts financial wellbeing. Therefore, this study hypothesis that:

H2: Expansion has significant and positive impact towards financial wellbeing.

INVESTMENT

Investment is almost always the main topic in the study of economics. It is worth noting that existing literature is much concentrated on investigating the FDI's impact in terms of export and import numbers such as Jansen (1995), Agosin and Mayer (2000), Buckley et al. (2002), Kim and Seo (2003), Tan and Lean (2010) and Mohamed et al. (2017). There is a dearth of studies on the impact of investment vis-a-vis the financial wellbeing, except for a study by Rahman et al. (2016). The study analysed a simple flow of funds model for explaining saving and investment behaviour in Bangladesh. Another study by Hassan (2010) mentioned the importance of investment in a country's if used efficiently to increase the output. In any given country, financial wellbeing and investment are usually interconnected. Some micro-entrepreneurs used gold as a form of their investment. According to Adewale et al. (2012), gold has a long-term value and easy to liquidate. Ar-rahnu is the platform usually used by micro-entrepreneurs to pledge their gold to access for instant cash (Nik Azman et al., 2016). Based on the presented scenario, although some researchers did study on micro financing, yet there is still less attention is given to examine the relationship between Islamic microfinance and financial wellbeing. A relatively recent study in Bangladesh by Hassan et al. (2017) found a significant relationship between Islamic microfinance and investment. This study explained that Islamic micro-finance increases and developed the number of assets owned by MEs. Therefore, this study hypothesised that Islamic microfinancing would enable MEs to acquire and maintain its assets gradually. Apart from that, in Malaysia, micro-credit programs have been found to increase MEs' asset-holdings (Mamun et al., 2012). Therefore, this study hypothesis that:

H3: Investment has significant and positive impact towards financial wellbeing.

FINANCIAL WELLBEING OF MICRO-ENTREPREMEURS

Financial wellbeing has been studied in various fields of academics since 1981 till now. It has been explored the areas of economics, financial counselling and planning, developmental psychology, consumer decision making and currently is services marketing. In the field of Islamic micro-financing, the literature is limited. Financial wellbeing is one of the instruments used to achieve financial health status level of an individual. It comprises of overall financial happiness with their financial status or assets (Brüggen et al., 2017). According to Fergusson et al. (1981), the financial wellbeing also can be quantify by the successful of an individual managing their financial status by having healthy spending, saving balance, positive investment and long term financial sustainability. Individuals, especially micro-entrepreneurs should achieve the financial wellbeing status as it will protect them from financial hardship (Dunn & Mirzaie, 2012). This is supported by Van Praag et al. (2003) mentioned on the financial wellbeing is important as it has strong and positive relationships to other wellbeing. Based on the presented literature, this study proposed the following conceptual framework (Figure 2).

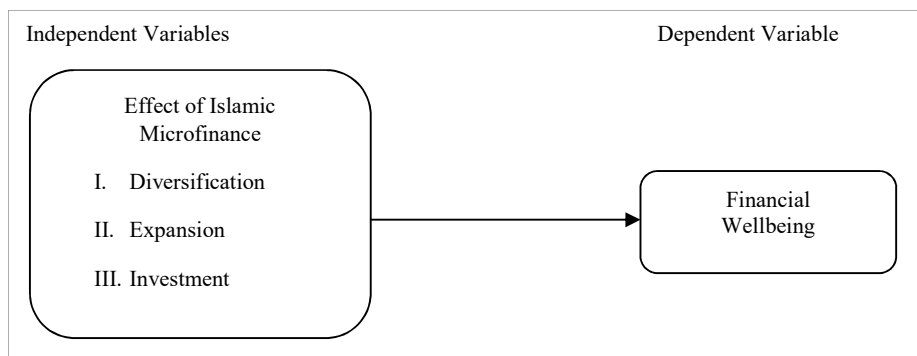


FIGURE 2. Conceptual framework

METHODOLOGY

This study used quantitative method by having a primary data collection. The data were collected using self-administered questionnaires adapted from previous studies and were distributed using purposive sampling to MEs in the Northern region of Peninsular Malaysia from June to September 2020. Since the crucial goal of this study is to conduct a study on MEs that use the Islamic microfinancing, so the most proper sampling was purposive sampling. According to Wolfer (2007), purposive sampling is a useful technique if the population of interest can be easily identified but not easily listed (Wolfer, 2007). Several precautionary steps were taken when approaching the respondents. First, the respondents need to answer a few questions (confirmatory questions) of whether they are considered as an ME. Second, the respondents must clarify whether they have obtained Islamic microfinancing. As a pilot study, this study initially collected the data in the states of Penang and Kedah. These states were selected due to the considerable income and poverty gaps between these two states. The total number of ME population is 1299. Out of the 150 distributed questionnaires, 135 surveys were returned. Twenty-eight surveys had more than 25% of the items unanswered, resulting in a useful sample of 107 questionnaires.

RESULTS

The analyses were based on descriptive and inferential statistics using the IBM SPSS and Structural Equation Modeling (SEM) analysis of moment structure (AMOS). The overwhelming majority of the respondents are Malay (90.65%) and married (81.31%) (Table 4). Besides, a significant number of respondents are of below 25 years old (27.10%), followed by 46 to 55 years old (27.10%), 25 to 35 years old that is 24.30%, above 55 years old that is 13.08% and the minority was from 36 to 45 years old with only 8.41%. Meanwhile, the results also show that the respondents were mostly secondary level educated (37.0%) compared to undergraduate degrees (diploma – 20.56% and bachelor's degree – 17.76%) and postgraduate degrees (master's degree – 2.80% and PhD – 5.61%). In other categories of education level (primary school leavers or with no formal education) also has quite a significant representation (18.69%). In terms of the type of product produced, most respondents are from the food industry (46.73%), followed by others (39.25%), textiles (10.28%), and

agriculture (3.74%). It comes as no surprise, however, that most respondents used Islamic micro-financing to finance their start-ups (51.40%). Besides, MEs also use their own money (22.43%), financing from government and non-government agencies (11.21%), bank loans/financing (8.41%), and borrow from family and relatives (6.54%).

TABLE 4. Descriptive analysis

Demographics	Details	Frequencies [%]
Marital Status	Married	87 [81.31]
	Single	20 [18.69]
Gender	Male	38 [35.51]
	Female	69 [64.49]
Race	Malay	97 [90.65]
	Chinese	6 [5.61]
	Indian	4 [3.74]
Age	Below 25 years	30 [28.04]
	25-35 years	25 [24.30]
	36-45 years	9 [8.41]
	46-55 years	29 [27.10]
	Above 55 years	14 [13.08]
Education Level	Sijil Pelajaran Malaysia (equivalent to O-Level)	37 [34.58]
	Diploma	22 [20.56]
	Degree	19 [17.76]
	Master	3 [2.80]
	PhD	6 [5.61]
	Others	20 [18.69]
Numbers of Employees	1-2 employees	33 [30.84]
	3-4 employees	18 [16.82]
	5 employees and above	19 [17.76]
	No employees	37 [34.58]
Years of Company Operated	Less than 5 years	49 [45.79]
	5-10 years	30 [28.04]
	11-15 years	16 [14.95]
	16-20 years	8 [7.48]
	More than 20 years	4 [3.74]
Type of Products	Agriculture	4 [3.74]
	Food	50 [46.73]
	Textiles	11 [10.28]
	Others	42 [39.25]
Financing Start-up Business	Islamic microfinancing	55 [51.40]
	Own money	24 [22.43]
	Government and non-governmental agencies	12 [11.21]
	Bank Loan	9 [8.41]
	Family and relatives	7 [6.54]

Note: N=107

EXPLORATORY FACTOR ANALYSIS (EFA)

A factor analysis with varimax rotation was carried out to validate whether the respondents perceived the constructs to be distinct from one another. The results showed that the four-factor solution and the total variance explained was 78.068 per cent of the total variance (Table 5). The KMO measure of sampling adequacy was 0.900, indicating sufficient inter-correlations. The *p*-value for Bartlett's Test in this study indicates 0.000 for all variables, which would be said perfectly significant as ($p < 0.05$). Communalities indicate the degree to which the factors explain the variance of the variables. Low values of communalities that are less than 0.3 could indicate that the item does not fit well with the other items in its component. All items have communality values above 0.5, which means that all items have 50 percent explained variable's variance. At this stage, variables E2 (I open a new store in different physical locations while maintaining the current business location) and G1 (It will help boost my total sales) were deleted due to redundant factors loading.

TABLE 5. Parameter estimates

	Diversification	Expansion	Investment	FW	C
The process of my business development is typically a transformation from selling a single product towards diversified products [D1]	.731				.512
I strongly need to diversify my business products and services [D2]	.883				.710
Access to Islamic microfinancing product will help to diversify my products and services [D3]	.763				.854
Product or service diversification can lead to higher economic growth [D4]	.815				.745
Access to Islamic microfinancing would increase my income [D5]	.752				.854
I need to diversify my products in order to overcome the instability or negative impact of terms in primary products [D6]	.725				.571
Islamic microfinancing will enable me to widen my activity and increase the quantity of the goods that I sell [D7]	.664				.818
I am strongly committed to continuing to establish my own business [E1]		.722			.884
I am strongly committed to pursuing my business goal. [E3]		.716			.859
I am willing to put forth a great deal of effort beyond what I would normally do to achieve my business goal. [E4]		.590			.559
I do whatever it takes to establish my business. [E5]		.703			.852
I will do whatever it takes to make my business a success. [E6]		.694			.749
Islamic microfinancing can assist me in increasing the number of assets owned by my business [I1]			.640		.767
Islamic microfinancing assists me in developing assets owned by my business [I2]			.660		.758
An asset is important for my business growth [I3]			.586		.705
Access to Islamic microfinancing will enable me to increase my investment [I4]			.806		.916
Islamic microfinancing increases my ability to have both current and fixed assets [I5]			.723		.831
I have the potential to earn more than what I need [FW2]				.675	.809
Based on the income level earned, I can be deemed as a rich person [FW3]				.847	.873
I can create value for my customers, my employees, and the society at large [FW4]				.863	.962
I can have more savings [FW5]				.758	.809
% of Variance (78.068)	24.676	18.992	17.340	17.06	
Keiser Meyer Olkin (KMO) Measure				0.900	
Bartlett's Test				0.000	

Note: Kaiser Meyer Olkin (KMO) test is a measure of sampling adequacy, while Bartlett's test is to test if the samples are from populations with equal variances. C stands for communalities; FW stands for financial wellbeing.

Next, this study analyses for convergent validity. Convergence validity is explained on the degree of indicators that sharing high proportion of variance in common (Hair et al. 2010). To assess for convergence validity, this study used

indicators proposed by Hair et al. (2017), which are indicators should have more than 0.5 for average extracted variance (AVE), cut off value for factor loading is 0.5 and all composite reliability (CR) are greater than 0.7. Based on Table 6, AVE for all indicators is more than 0.5 and CR is greater than 0.7. the loading for each indicator also more than 0.5. Therefore, it reflect that the construct meets both reliability and convergent validities.

TABLE 6. Reliability and convergent validity

	Composite Reliability (CR)	Average Variance Extracted (AVE)
Diversification	0.952	0.741
Expansion	0.956	0.813
Investment	0.962	0.833
Financial Wellbeing	0.966	0.877

After assessing the reliability and validity test, this study proceeds with analysis for discriminant validity. In general, the discriminant validity is about items should load strongly in their construct rather than in other construct (Fornell and Larcker, 1981). In fact, the AVE shared between each construct should be greater than the variance shared between the constructs. Based on Table 7, it represents the discriminant validity of this study. There construct highly load in their own construct and its show there is no discriminant validity issue.

TABLE 7. Discriminant validity

	1	2	3	4
1. Diversification	0.861			
2. Expansion	-0.761	0.902		
3. Financial Wellbeing	-0.564	0.676	0.937	
4. Investment	-0.665	0.726	0.803	0.913

CONFIRMATORY FACTOR ANALYSIS (CFA)

After confirming factors loading access by exploratory factor analysis, this study further assess on the confirmatory factor analysis (CFA). The confirmatory factor analysis (CFA) was performed for 107 data collected through analysis of moment structures (AMOS) version 21. This study has four (4) constructs (diversification, expansion, investment, and financial wellbeing). All constructs were analysed in a single measurement model. In each measurement model, multiple items have been used to measure each factor (Anderson and Gerbing, 1982; Kline, 2015; Hair et al., 2010; Kenny et al., 2015). As indicated in Figure 3, the modified measurement model was found to fit the data adequately. The standardised factor loading for all items measured was high (above 0.50). The chi-square was ($\chi^2 = 2.511$, $df = 180$, $N=107$). Besides, the CFI is within the recommended threshold value, which was presented at 0.900.

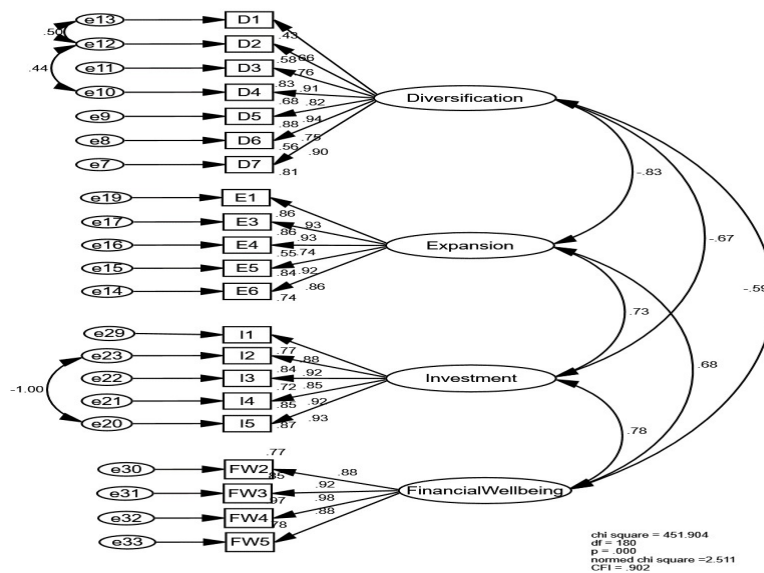


FIGURE 3. Result for confirmatory factor analysis (CFA)

STRUCTURAL EQUATION MODELLING (SEM)

Once all the constructs in the measurement model (stage one) were validated and satisfactory fit achieved (Anderson and Gerbing, 1988; Kline, 2015; Awang, 2015), a structural model can then be tested as the main stage of the analysis. The fit indices included the goodness of fit (GFI) and comparative fit index (CFI) to assess the structural model's magnitude of residuals. If the goodness of fit indices did not fit, then the requirement was to rectify the model until one was achieved the acceptable statistical indices (Tabacnick et al., 2007; Kline, 2015). The normed chi-square statistics results were at 2.511 ($\chi^2=451.904$, $df=180$), CFI, and GFI; both scores round out 0.90 supported the model (Figure 4).

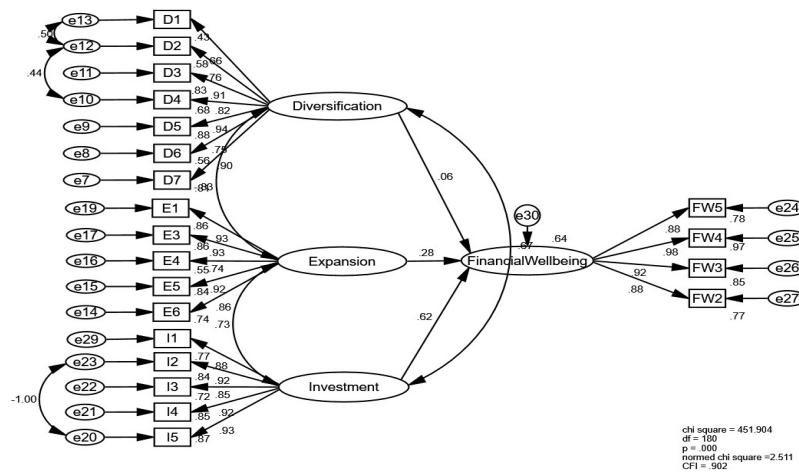


FIGURE 4. Result for structural equation modelling (SEM)

This study then proceeded with the hypotheses testing. The direct relationship in SEM is the relations from one exogenous latent variable to the endogenous latent variable. Table 8 outlines the results of the relations from three exogenous latent variables to one endogenous latent variable.

TABLE 8. Results for causal effect

Hypothesis	Causal Path	Estimate	S.E	C.R	P	Decision
H1	Diversification-Financial wellbeing	.040	.086	.459	.646	Reject
H2	Expansion-Financial Wellbeing	.245	.121	2.027	**	Accept
H3	Investment-Financial Wellbeing	.559	.094	5.915	***	Accept

Notes: *** p-value < 0.01; ** p-value < 0.05; * p-value < 0.10

From the Table 8, the estimates of the standardised coefficients showed that the path between investment and financial wellbeing was positive and significant. Thus, hypothesis H3 ($\beta=0.559$, $p<0.01$), investment activities as a significant predictor of financial wellbeing was supported. The results also revealed that the path between expansion and financial wellbeing was positive and significant. It, therefore, supported hypothesis H2 ($\beta=0.245$, $p<0.05$), expansion activities as a significant predictor of financial wellbeing. The estimates of the standardised coefficients (Table 8 and Figure 4) showed that the direct effect of the investment on financial wellbeing was the strongest compared to other hypothesised paths. On the other hand, H1 ($\beta=0.040$, $p>0.10$) increased diversification activities as a significant predictor of financial wellbeing was not supported.

DISCUSSION

In general, this study explored the idea that Islamic microfinance has the potentiality to affect financial wellbeing during the COVID-19 pandemic. As justified in the literature, when the number of bottom-line communities increases, it will directly increase microfinancing use, more so during this COVID-19 pandemic. Based on the finding, First, out of the three factors, the 'investment-financial wellbeing' relationship is the most significant. It provided strong support that increased investment activities from Islamic microfinancing may strengthen or spur the financial wellbeing. This could explain why the significant positive relationship between investment and the financial wellbeing. For example, microfinancing can help the MEs increase their capital investment in acquiring long-term assets such as plants and machinery to increase automation. Therefore, it is no surprise that the item of 'access to Islamic microfinancing will enable me to increase my investment' scored the highest than other items within the same dimension.

Second, the significant 'expansion-financial wellbeing' relationship also provided strong empirical support for the conceptual framework. Next only to the investment factor, the results highlight the strong need for business expansion that can be enabled by Islamic microfinancing. To further grow a business, for example, expansion is a critical aspect as stressed by Nik Azman et al. (2016) which posited that business expansion is positively related to financial wellbeing. However, the insignificant path between diversification and growth points out that the respondents did not consider such factors of significant import. This can be explained by considering where their business stands in the business cycle of birth-growth-maturity-decline. From the demographic profiles, for example, it can be discerned that most of the respondents are in the growth stage. Hesse (2009) argued that businesses which are at this stage rarely attempt for diversification as they are concentrating on making their current venture takes off first before considering, much less adopting other aggressive strategies.

In specific, Islamic microfinance has become an essential tool to eradicate poverty. It has been used in countries such as Bangladesh, Egypt, Indonesia, Iran, Nigeria, Pakistan, Turkey, Yemen, and Malaysia. Notwithstanding, unlike other countries, micro-entrepreneurs in Malaysia is almost always perceived to place total reliance on the government for fund provision (bottom-down approach). In the long run, however, it is more sustainable for the government to act as an enabler rather than a fund provider. Hausman and Rodrik (2003) for example, argued that government should play an important role in structural transformation rather than a mere fund provider by promoting entrepreneurship and creating the right incentives for entrepreneurs to invest in a new range of activities. This role shift is especially important during the pandemic, where there is a greater emphasis on the government's fiscal responsibility.

IMPLICATION AND CONCLUSION

This study has managed to shed light (albeit in its preliminary stage) on the impact of Islamic microfinancing on MEs' financial wellbeing in Malaysia. This study deliver implication to various angles. In practical part, it opens the eyes of micro-entrepreneurs to opt for the right path (expansion and investment) to achieve financial wellbeing. Government (regulators) can enhance the ability of Islamic microfinancing as a tool towards financial wellbeing and in theoretical part, this study deepens the scope of Schumpeter's theory by inculcate this theory with Islamic finance scope of study. The next logical step would be to further scale up the study by including possible samples from East Malaysia of Sabah and Sarawak. Apart from that, this study domain might benefit from in-depth investigation via qualitative methods in shedding a brighter light on the extent to which Islamic microfinancing has impacted MEs' lives. Another research avenue would be to use the lens of *maqasid al-shari'ah* in investigating the impact on Islamic microfinancing might not have in achieving the full extent of *shari'ah*.

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Nik Hadiyan Nik Azman
School of Management
Universiti Sains Malaysia
11800 USM, Penang
MALAYSIA.
E-Mail: nikhadiyan@usm.my

Mohd Zaidi Md Zabri
School of Management
Universiti Sains Malaysia
11800 USM, Penang
MALAYSIA.
E-Mail: zaidizabri@usm.my

Ema Izati Zull Kepili
School of Management
Universiti Sains Malaysia
11800 USM, Penang
MALAYSIA.
E-Mail: emazull@usm.my

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