

## Micro-Credit Financing and Business Sustainability Among SMEs

**Nur Zainie Abd Hamid\*, Farah Lina Azizan, Muhammad Aiman Arifin and Nor Anis Shafai**

*Faculty of Business and Management, UiTM Perlis Branch, Arau 02600, Perlis, Malaysia*

### ABSTRACT

Small and Medium Enterprises (SMEs) play a crucial role in the Malaysia's economy by driving employment and economic growth. However, many SMEs face significant challenges in obtaining adequate financing, particularly micro-credit, which is vital for their growth and sustainability. This study examines the connection between micro-credit financing and business sustainability among SMEs in Kedah and Perlis, focussing on key factors such as access to micro-credit, financial literacy, loan size, interest rate, repayment terms, and entrepreneurs' skills and knowledge. A structured questionnaire, adapted from validated instruments, was distributed to 125 SME entrepreneurs in Kedah and Perlis who had previously accessed micro-credit financing. Using a quantitative research design, data were collected and analysed using the SPSS to assess the relationship between the variables, primarily through the multiple regression analysis. The regression model was statistically significant,  $F(6,118) = 4.889$ ,  $p < 0.001$ , however, the adjusted  $R^2$  value of 0.199 suggests that only 19.9% of the variance is explained. Among the six variables, only skills and knowledge were significant predictors ( $\beta = 0.395$ ,  $p < 0.001$ ). These results highlight the need for targeted interventions, such as enhanced training programmes, to equip SME owners with the necessary skills to optimise micro-credit financing for sustainable growth.

**Keywords:** Business sustainability, entrepreneur, micro-credit financing, Small Medium Enterprises (SMEs)

### ARTICLE INFO

#### Article history:

Received: 13 June 2025

Published: 13 August 2025

DOI: <https://doi.org/10.47836/pp.1.4.020>

#### E-mail addresses:

[nurzainie60@uitm.edu.my](mailto:nurzainie60@uitm.edu.my) (Nur Zainie Abd Hamid)

[farahlina@uitm.edu.my](mailto:farahlina@uitm.edu.my) (Farah Lina Azizan)

[aimanarifin@uitm.edu.my](mailto:aimanarifin@uitm.edu.my) (Muhammad Aiman Arifin)

[anis448@uitm.edu.my](mailto:anis448@uitm.edu.my) (Nor Anis Shafai)

\* Corresponding author

### INTRODUCTION

The Malaysian economy heavily depends on the Small and Medium Enterprises (SMEs), which significantly contribute to employment and economic growth. However, many SMEs struggle to secure adequate financial resources, particularly micro-credit, which is vital for business sustainability (AL-Maamari et al., 2025;

Gatto & Sadik-Zada, 2022). Factors such as financial literacy, loan size, interest rates, repayment terms, and entrepreneurial skills add to the uncertainty regarding the effectiveness of micro-credit in supporting SMEs (Nor et al., 2021; Sabli et al., 2018). Rigid lending criteria, high collateral requirements, and complex financial products further hinder SMEs' access to financing (Ikmal Khairulluzin et al., 2019). To address this, innovative micro-credit programmes have been introduced, but their long-term impact remains uncertain. Financial literacy programmes that enhance entrepreneurs' knowledge on credit management and financial planning may help bridge this gap to reduce the risks of fund mismanagement and repayment failure (Bernard, 2019). Another critical concern is whether the loan amounts provided through micro-credit are sufficient for the SMEs' capital needs. Limited loan sizes may hinder growth, while larger loans can create a financial burden if interest rates and repayment terms are unfavourable (Adlin et al., 2023; Uwonda & Okello, 2015). Additionally, entrepreneurial skills and business knowledge play a crucial role in ensuring business sustainability, as financial support alone does not guarantee success (Somwethee et al., 2023). This raises questions about the adequacy of existing financial literacy programmes and entrepreneurial training in equipping the SMEs with the necessary skills. Given these complexities, this study aims to examine the relationship between micro-credit financing and business sustainability to provide insights that can inform policymakers and financial institutions in designing more effective SME support programmes.

## METHODOLOGY

This study adopts a quantitative research design to assess the impact of micro-credit financing on the SMEs' sustainability in Kedah and Perlis, Malaysia. The SME owners across various industries, including retail, manufacturing, and services, form the target population. A purposive sampling strategy selects the SME owners with micro-credit experience, with a required sample size of 74 determined by a G\*Power software. However, to enhance accuracy and representation, data is collected from 125 respondents who have received micro-credit from the government or non-government organisations. A structured questionnaire, adapted from validated studies (Adlin et al., 2020), ensures reliability in measuring micro-credit financing and business sustainability. The questionnaire consists of 30 items across eight sections, measured on a five-point Likert scale. Ethical approval is obtained from Universiti Teknologi MARA (UiTM), with participant consent secured before the data collection. The data collection was conducted from September 1 to September 28, 2024, via in-person surveys. The data was analysed using SPSS version 26, applying descriptive statistics, correlation, and regression analysis to evaluate the significance of micro-credit financing in SME sustainability.

FINDINGS AND DISCUSSION

The study involved 125 respondents from the SMEs industry. The respondents represented SMEs in various business sectors including the service industry, food and beverage, retailing, and manufacturing. The multiple regression analysis as shown in Tables 1, 2, and 3 was conducted to examine the impact of micro-credit financing aspects on the business sustainability of the SMEs. The overall regression model was statistically significant,  $F(6,118) = 4.889, p < 0.001$ , indicating that the set of independent variables collectively explains a significant portion of the variance in the SME business sustainability. However, the adjusted  $R^2$  value of 0.199 suggests that only 19.9% of the variation in business sustainability can be attributed to these factors, implying that other external or internal elements may also influence the SMEs’ long-term viability.

Among the six independent variables, only skills and knowledge emerged as statistically significant predictors of business sustainability, with a standardised beta coefficient ( $\beta = 0.395, p < 0.001$ ). This finding highlights the crucial role of entrepreneurial competencies in ensuring the SME sustainability. Business owners with greater skills and

Table 1  
Model summary

Model	R	R <sup>2</sup>	Adjusted R <sup>2</sup>	Std. Error of the Estimate
1	.446 <sup>a</sup>	.199	.158	.39463

Table 2  
ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	4.569	6	.761	4.889	<.001 <sup>b</sup>
Residual	18.377	118	.156		
Total	22.946	124			

Table 3  
Coefficients

Model	Unstandardised Coefficients		Standardised Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	2.023	.419		4.833	<.001
Access to micro-credit	.116	.074	.149	1.564	.121
Literacy Programme	.002	.090	.002	.018	.986
Loan Size	.058	.104	.063	.560	.576
Interest Rate	-.023	.098	-.031	-.235	.814
Repayment Terms	-.140	.092	-.189	-1.520	.131
Skill and Knowledge	.437	.115	.395	3.805	<.001

knowledge are more likely to make informed financial decisions, adapt to market changes, and implement effective business strategies, ultimately contributing to long-term success. This aligns with previous research emphasising the importance of managerial capabilities, technical expertise, and continuous learning in fostering business resilience (AL-Maamari et al., 2025; Somwethee et al., 2023; Bernard, 2019). Entrepreneurial knowledge plays a key role in the ability to leverage financial resources efficiently, reducing the risk of mismanagement and business failure (Uwonda & Okello, 2015).

## CONCLUSION

This study examined the relationship between micro-credit financing and business sustainability among the SMEs. The results suggest that while access to micro-credit is important, its effectiveness in ensuring business sustainability largely depends on the skills and knowledge of entrepreneurs. Therefore, policymakers and financial institutions should focus on strengthening capacity-building programmes, such as financial literacy and entrepreneurial training, to maximise the benefits of micro-credit financing. Future research should explore additional factors that may contribute to the SMEs' long-term success, including market conditions, business strategies, and government support initiatives.

## ACKNOWLEDGEMENT

The authors sincerely thank Universiti Teknologi MARA (UiTM) Perlis Branch, Malaysia, and Universitas Islam Bandung, Indonesia, for their invaluable support and collaboration. This study was made possible through the International Matching Grant (IMF) from both institutions. Special appreciation goes to the faculty and administrative teams for their guidance and encouragement.

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