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The effectiveness of Islamic finance for entrepreneurial business (SMEs) on the economic growth: The Malaysian experiment

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Abstract:

This study aims to empirically examine the relationship between Islamic finance for entrepreneurial business (SMEs) and economic growth under the "endogenous growth model" in Malaysia. This study applied a quantitative methodology by using the bootstrap quantile regression approach to investigate the genuineness positive impact of Islamic finance for entrepreneurial business on economic growth. The empirical investigation covered a period starting from the first quarter of 2014 until the second quarter of 2021 by adopting gross domestic product as a proxy variable for economic growth, Islamic finance for entrepreneurial business as the main exogenous explanatory factor, and other macroeconomic variables (gross fixed capital formation and consumer price index) to avoid biases. The findings indicated that Islamic finance for entrepreneurial business is contributing to the economic growth of Malaysia which confirms that Islamic finance is a successful mechanism for achieving economic growth through financing the entrepreneurial business of SMEs.

Keywords: *Islamic Finance; Entrepreneurial Business; SMEs; Endogenous Growth Model; Bootstrapped Quantile Regression.*

JEL Classification Codes: *G21; G29; M20; C80.*

Résumé:

Cette étude vise à examiner empiriquement la relation entre la finance islamique pour les entreprises entrepreneuriales (PME) et la croissance économique dans le cadre du « modèle de croissance endogène » en Malaisie. Cette étude a appliqué une méthodologie quantitative en utilisant l'approche de régression quantile bootstrap pour étudier l'impact positif réel de la finance islamique pour les entreprises entrepreneuriales sur la croissance économique. L'enquête empirique a couvert une période allant du premier trimestre de 2014 au deuxième trimestre de 2021 en adoptant le produit intérieur brut comme variable de substitution pour la croissance économique, la finance islamique pour l'entreprise entrepreneuriale comme principal facteur explicatif exogène, et d'autres variables macroéconomiques formation de capital fixe et indice des prix à la consommation) pour éviter les biais. Les résultats ont indiqué que la finance islamique pour les entreprises entrepreneuriales contribue à la croissance économique de la Malaisie, ce qui confirme que la finance islamique est un mécanisme efficace pour atteindre la croissance économique en finançant l'entreprise entrepreneuriale des PME.

Mots clés: *Finance Islamique ; Entreprise entrepreneuriale ; PME ; modèle de croissance endogène ; Bootstrapped Quantile Regression.*

Jel Classification Codes : *G21; G29; M20; C80.*

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I. Introduction

The Malaysian Islamic finance industry is growing rapidly alongside the regular financial system in the Malaysian dual financial system (DinarStandard, 2020; Islamic Financial Services Board, 2020). The number of Islamic banks has increased from two in 2004 to sixteen in 2019, with a network of locations that has grown from 136 in 2004 to 2,039 in 2008 (Abd. Majid and H. Kassim, 2015; Islamic Financial Services Board, 2020).

The Islamic banking industry offers job opportunities for more than 6,700 workers in 2008 compared to around 4,000 in 2004, in sync with the growth in the banking infrastructure (Abd. Majid and H. Kassim, 2015). The Islamic banking sector has also produced strong financial performance, as shown by the high growth in assets (Abd. Majid and H. Kassim, 2015; Islamic Financial Services Board, 2020).

In 2008, the Islamic banking business employed about 6,700 people, up from roughly 4,000 in 2004, in line with the expansion of the financial infrastructure (Abd. Majid and H. Kassim, 2015). The Islamic banking sector has also delivered good financial results, as seen by asset growth (Abd. Majid and H. Kassim, 2015; Islamic Financial Services Board, 2020).

Assets in the Islamic financing system have increased dramatically, from USD 2000 million in 2004 to USD 689720.58 million in 2018. (Abd. Majid and H. Kassim, 2015; Islamic Financial Services Board, 2020). Since the early 2000s, Islamic banking assets have risen consistently, with annual growth rates of 15 to 25%. In which the Islamic financial industry's net income has increased from USD 578,87 Million in 2004 to USD 6970,58 Million in 2018 (Islamic Financial Services Board, 2020).

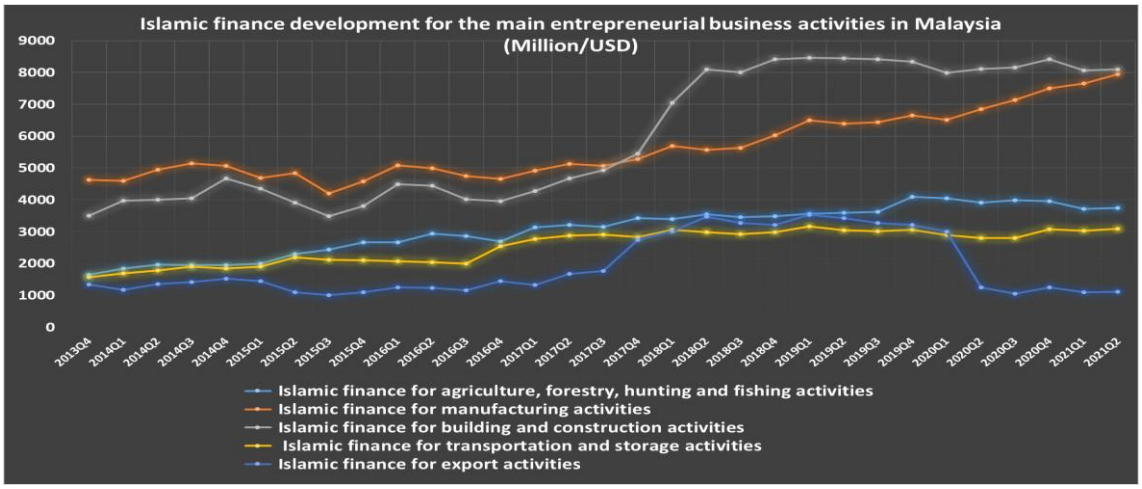
Malaysia's Islamic banking and finance business has had a noteworthy performance and quick change in the more than 40 years since its inception; in fact, Malaysia has become an example country for others who aspire to expand Islamic banking and finance (DinarStandard, 2020). Malaysia is the top country in Islamic finance's greatest performance today, according to Reuters (2020), with a Global Islamic Economy Indicator score of 111 following an Islamic Finance Development Indicator score of 132 (Thomson Reuters, 2019).

Furthermore, the strong performance of Malaysia's Islamic finance industry has coincided with strong economic growth, with the country's economy expanding by 4.9 per cent year on year in the second quarter of 2019, up from 4.5 per cent in the previous three months and outperforming market expectations of 4.8 per cent (Trading Economics Report, Malaysia GDP Annual Growth Rate, 2019).

According to Awang et al. (2016), Islamic financing has recently strengthened the entrepreneurial business, as evidenced by the fact that both small and medium-sized companies (SMEs) have been financed by Islamic finance (Fig 1; Fig 2). Small and medium-sized companies (SMEs) are expected to account for more than 40% of Malaysia's gross domestic product (GDP) by 2020 (Awang et al., 2016), for this reason, it had led us to demonstrate empirically that Malaysia is a valuable experiment in terms of promoting Islamic finance for the entrepreneurial business to achieve economic growth. As a result, this study answers the following question:

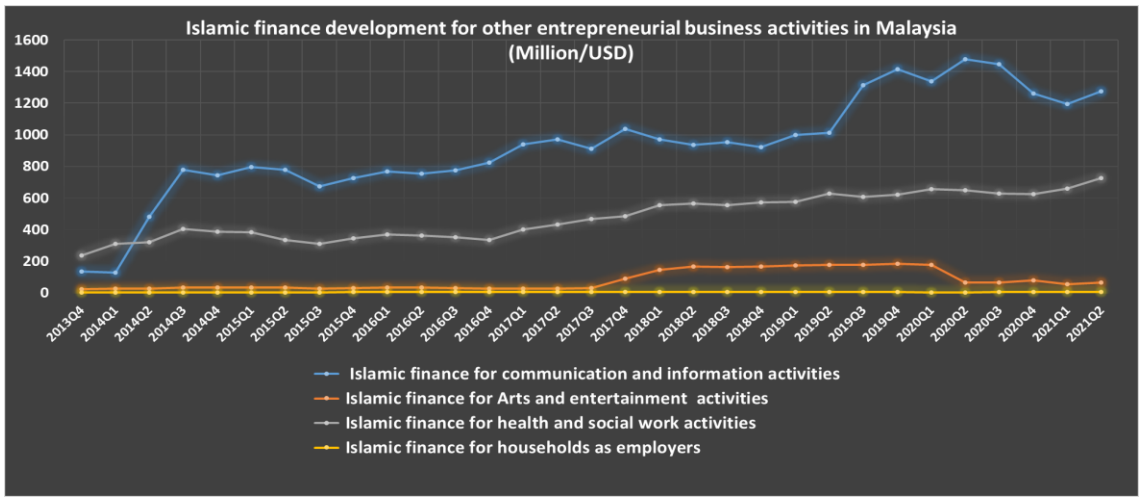
"Does Islamic finance for the entrepreneurial business enhance economic growth?".

Fig. (1): Islamic finance development for the main entrepreneurial business activities in Malaysia (Million/USD)



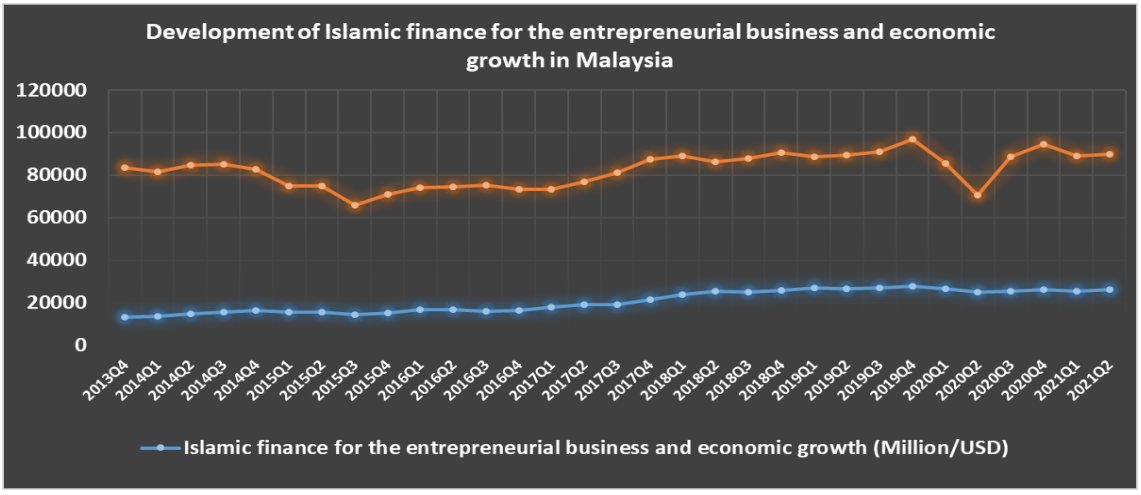
Source: Organised graph by authors based on the extracted data from Bank Negara Malaysia

Fig. (2): Islamic finance development for other entrepreneurial business activities in Malaysia (Million/USD)



Source: Organised graph by authors based on the extracted data from Bank Negara Malaysia

Fig. (3): The developed corresponding behaviour of both Islamic finance for the entrepreneurial business and economic growth (real GDP) in Malaysia with almost the same growth ratio (2013Q4-2021Q2) (Million/USD)



Source: Organised graph by authors based on the extracted data from Bank Negara Malaysia

As shown in Fig 3, because of the developed synchronized behaviour of both Islamic finance for entrepreneurial business and economic growth. Thus, this study is addressing the effectiveness of Islamic finance as an alternate finance mechanism to conventional finance. As well, based on the corresponding behaviour of both Islamic finance for the entrepreneurial business and economic growth in Malaysia, and according to Rudnyckyj (2020) that Malaysian Islamic finance is empowering economic growth, this study formulates the following hypothesis:

- *H1: Islamic finance for the entrepreneurial business is enhancing the economic growth of Malaysia.*

The importance of this study is as the following:

- Providing empirical evidence on the contribution of Islamic finance to the real economy sector as an effective mechanism for financing entrepreneurial business in small and medium enterprises (SMEs).
- Supporting researchers and decision-makers who want to achieve economic growth through empowering entrepreneurial business with Islamic finance as an alternative finance mechanism to conventional finance.

The rest of this study is framed as follows: the literature review and the gap of the study are discussed in "Literature Review" (Section II). Sample and collected data, and the empirical investigation method are presented in "Research Methodology" (Section III). The hypothesis testing and experimental results are then discussed and deliberated in "Results and Discussion" (Section IV). As a

final point, the conclusion and explanations with some recommendations are presented in "Conclusion" (Section V).

II. Literature Review

Many studies investigated the relationship between Islamic finance and economic growth. However, to the best of the author's knowledge, there is no pure study that investigated the relationship between Islamic finance for entrepreneurial business and economic growth in a concept of endogenous growth. Thus, it is believed that this paper fills the literature gap and makes a weighty contribution to the literature.

In the context of Islamic finance and entrepreneurial business through small and medium enterprises (SMEs), Husin, Haron, and Aziz (2019) investigated whether economic benefit, convenience, and transaction process are significant in influencing the perceived benefits of Islamic crowdfunding platforms in Malaysia and whether perceived benefits affect small and medium enterprises. Their findings revealed a strong and substantial link between economic gain and perceived benefits.

Similar to that research, Awang et al (2016) examined the relationship between the affirmation of Islamic finance and the application of Islamic financial planning among SMEs halal operators in Malaysia. Their findings determined that acceptance of Islamic finance was highly associated with the application of Islamic financial planning among SMEs halal providers in Malaysia.

The number of research on Malaysia's experience with Islamic financing to empower entrepreneurial businesses and achieve economic growth is limited, with Rudnyckyj's work being the most prominent (2020). Rudnyckyj (2020) highlighted how Islamic finance in Malaysia contributes to economic stability and prosperity by empowering entrepreneurial businesses with Islamic financing, which provides strong skills and social solidarity while reducing risk and profit-sharing. In addition to conventional finance, Rudnyckyj (2020) demonstrated the adoption of Malaysia's Islamic banking experiment as a worldwide financial alternative network centred recently on New York, Tokyo, and London. That's what researchers discovered when they looked at the role of conventional finance in entrepreneurial business growth.

According to Samila and Sorenson (2011), more venture capital availability has a favourable impact on entrepreneurial businesses, employment, and cumulative revenue, all of which lead to economic growth. Similarly, Stulz (2000) showed that economic growth is dependent on financial systems that allow financial intermediaries to access specialized capital for entrepreneurship.

Also, Adusei (2016) and Ordeana et al. (2019) established that entrepreneurship is an engine for attaining economic growth by concentrating solely on the contribution of entrepreneurship to economic growth. Above and beyond, the theoretical background of the contribution of financing entrepreneurship business on economic growth was confirmed by King and Levine (1993) in the context of "endogenous growth model", which constructs modelling of endogenous growth from finance and entrepreneurship, the finance mechanism evaluates prospective entrepreneurs, arranges savings to finance the most appealing activities to increase productivity, which boosts the potential for profitable innovation and thus increases economic growth. As a result, the financial sector boosts economic growth by increasing the pace of innovation in the entrepreneurship productive sector. For this reason, this study is examining the contribution of Islamic finance for entrepreneurial business on economic growth in Malaysia.

In terms of significant research on the relationship between Islamic finance and economic development, Kassim (2016) used the ARDL to examine the impact of Islamic financing on the production of main macroeconomic indicators on a sample of all Islamic banks in Malaysia during a quarterly period from 1998 to 2013. Kassim (2016) used the Industrial Production Index as a proxy for economic development, with total Islamic bank deposits, total Islamic bank financing, gross fixed capital formation, general government spending, and inflation as independent variables.

In the same vein, Boukhatem and Moussa (2018) demonstrated strong empirical evidence that the development of the Islamic financial system stimulated economic growth in the 13 selected MENA region, applied Panel Cointegration and FMOLS regression to a sample of Islamic banks in the MENA region for 2000-2014, used GDP per capita growth as dependent variable and loans from Islamic banks / GDP, education, inflation, government consumption/GDP, trade openness, domestic credits to private sector/GDP, rule of law and regulatory quality as independent variables.

In a similar path, Boukhatem and Moussa (2018) provided strong empirical evidence that the development of the Islamic financial system stimulated economic growth in the 13 selected MENA regions. They used Panel Cointegration and FMOLS regression to a sample of Islamic banks in the MENA region from 2000 to 2014, with GDP per capita growth as the dependent variable and loans from Islamic banks / GDP as the independent variable, and used GDP per capita growth as the dependent variable.

Furthermore, all of the notable studies relating to this study subject have looked at the link between Islamic finance and economic growth and found that Islamic financing is enhancing economic growth (Tabash and Dhankar, 2014;

Abd. Majid and H. Kassim, 2015; Tabash and Anagreh, 2017; Ledhem and Mekidiche, 2020; Ledhem and Mekidiche, 2021).

Depending on the surveying of literature, and based on the perception of the endogenous growth concept which determines that economic growth is driven by Islamic finance, as well, based on the theoretical concept of King and Levine (1993) which determined that financing entrepreneurship business is promoting economic growth, this research is investigating the contribution of Islamic finance for entrepreneurial business on economic growth in the context of "endogenous growth model".

III. Research Methodology

III.1 Sample and Data Collection

This study used data of Islamic finance for entrepreneurial business in Malaysia over 16 Islamic banks (RHB Islamic Bank Berhad and Standard Chartered Saadiq Berhad, Affin Islamic Bank Berhad, Public Islamic Bank Berhad, Maybank Islamic Berhad, Alliance Islamic Bank Berhad, Bank Islam Malaysia Berhad, CIMB Islamic Bank Berhad, Hong Leong Islamic Bank Berhad, Kuwait Finance House (Malaysia) Berhad, MBSB Bank Berhad, OCBC Al-Amin Bank Berhad, AmBank Islamic Berhad, Al Rajhi Banking & Investment Corporation (Malaysia) Berhad, HSBC Amanah Malaysia Berhad, Bank Muamalat Malaysia Berhad) which were drawn from quarterly datasets of each bank database over a period starting from the first quarter of 2014 (2014Q1) until the second quarter of 2021 (2021Q2). The Islamic finance for entrepreneurial business (IFENB) is the total of financing manufacturing business activities, transportation and storage business activities, agriculture, forestry, hunting and fishing business activities, export business activities, building and construction business activities, communication and information business activities, arts and entertainment business activities, health and social work business activities and households as employers business activities (Table 1).

Other macro data variables like gross fixed capital formation (GFCF) and consumer price index (CPI) were assembled from the IMF database, Bank Negara Malaysia, and Trading economics website (National Accounts (GDP) at Current Prices from Bank Negara Malaysia (Central Bank of Malaysia), 2020; Malaysia's GDP and Components - IMF Data, 2020; Trading Economics Database, 2020) (Table 1).

Table 1: Descriptive statistics summary of the research variables

Variable	*Obs*	*Mean*	*Std. Dev.*	*Min*	*Max*
IFENB (USD Million)	31	20660.66	5126.921	13067.63	27575.89
GDP (USD Million)	31	82494.30	7949.664	65846.81	96719.12
CPI	31	117.2618	4.530865	108.5819	123.2000
GFCF (USD Million)	31	19600.52	1967.000	14331.07	23611.90

Source: Descriptive statistics summary organized by authors

III.2 Experimental Variables

This research has implemented real gross domestic product (GDP) as a proxy variable for economic growth, Following similar studies of Islamic finance and economic growth relationship (Yazdani, 2011; Khan et al., 2014; Abd. Majid and H. Kassim, 2015; Adekola, 2016; Rabaa and Younes, 2016; Alkhazaleh, 2017; Ledhem and Mekidiche, 2021).

Our Exogenous variable is Islamic finance for entrepreneurial business determined with (IFENB). To avoid the problem of biases in our estimated model due to omitted variables, other variables are included in the model to control the possible effects of other growth determining factors which will be adopted based on the previous studies: consumer price index (CPI) as a proxy of inflation (Djalilov and Piesse, 2016; Rabaa and Younes, 2016; Setyawati, Suroso, Suryanto, and Nurjannah, 2017; Ledhem and Mekidiche, 2021) and gross fixed capital formation (GFCF) as a calculation of investments (Kassim, 2016; Ledhem and Mekidiche, 2021).

III.3 Estimating Model

This study looked at the relationship between Islamic finance and economic growth in the context of an “endogenous growth model” that is one in which the long-run growth rate is determined by variables within the model rather than an exogenous rate of technological progress as in a neoclassical growth model (Romer, 2011). Reliably, Jhingan (2011) clarified that the “endogenous growth model” emphasizes technical progress as a result of the rate of investment and the size of the human capital stock, and Tabash and Anagreh (2017) confirmed that the Islamic finance industry has had a significant impact on the growth of the Middle East countries' gross domestic product and investments. As a result, according to the "endogenous growth model," when investments rise in tandem with high levels of capital stock owing to the banking and financial sectors, economic growth accelerates (Petkovski and Kjosevski, 2014). As a result, Islamic financing is an exogenous element in the "endogenous growth model," as Ledhem (2020) have demonstrated. As a result, because Islamic finance for entrepreneurship is a subset of Islamic finance, Islamic finance for entrepreneurship will be investigated and estimated in the context of an

"endogenous growth model" to see if it adds to economic growth in the following model:

$$GDP_{it} = \alpha_0 + \alpha_1 IFENB_{it} + \alpha_2 CPI_{it} + \alpha_3 GFCF_{it} + \xi_{it} \quad (1)$$

Where α_0 is a constant term, α_i are coefficients, ξ_{it} is an error term. While the dependent variable: GDP and the independent variable is IFENB, while the Control variables are GFCF and CPI.

III.4 Econometric Methodology

Following the work of Jiang et al. (2019), which used quantile regression to assess the connection between capital buffer and bank risk-taking, this experimental study used quantile regression to estimate and examine if Islamic finance for entrepreneurship has an impact on economic growth. Over 1000 imitations, this experimental investigation used quantile regression with the bootstrap simulation approach for a robust estimation that avoided the issues of heteroskedasticity and autocorrelation in regression (Machado and Silva, 2013; Machado et al., 2019).

Koenker and Bassett proposed the quantile regression approach, which is a non-parametric regression (1978). When the interest variables potentially have different impacts on the dependent variable's conditional distribution, it is used in many practical situations to offer a robust estimation free of the regression heteroskedasticity problem (Mello and Perrelli, 2003; Machado and Silva, 2013; Machado et al., 2019).

Following the research of Koenker and Bassett (1978), the τ which is conditional distribution quantile of Yi given Xi is:

$$R_\tau(Y_i|X_i) = X_i'\alpha_\tau \quad (2)$$

The constriction vector of the quantile τ amongst the conditional distribution is measured by:

$$\hat{\alpha}_\tau = Arg\ min \sum_{i=1}^{N} p_\tau(Y_i - X_i'\alpha) \quad (3)$$

where the quantile loss function p_τ (.) is well-defined as:

$$p_\tau(u) = (\tau - 1)u \text{ for } u < 0$$

$$p_\tau(u) = \tau u \text{ for } u \geq 0 \quad (4)$$

The approach of quantile regression allows for constraints heterogeneity with various values for in the interval (0,1), which are the minimal weighted deviations total, allowing us to gain a complete picture of the nexus between both exogenous variables and an endogenous variable, as shown in Eq (3). (J. a. F. Machado et al., 2019).

Furthermore, because it may modify the weight through the loss function, the quantile regression technique is resilient to outliers and extreme distributions.

The quantile regression, unlike the OLS regression, does not have a limit on the standard error term (J. a. F. Machado et al., 2019).

Accordingly, the estimated model using the quantile regression in this research is:

$$GDP_t = \alpha_\tau + \alpha_{\tau 1} IFENB_t + \alpha_{\tau 2} CPI + \alpha_{\tau 3} GFCF_t \, , \tau \in (0,1) \quad (5)$$

Where α_τ is a constant term, $\alpha_{\tau 1}$, $\alpha_{\tau 2}$, and $\alpha_{\tau 3}$ are coefficients, t is the quarter, GDP is the dependent variable, IFENB is the independent variable. While CPI and GFCF are the control variables.

This research executed the quantile regression with an adaptable minimum weighted deviation sum over 0.25 (represent low quantiles of Islamic finance for entrepreneurial business), 0.5 (represent intermediate quantiles of Islamic finance for entrepreneurial business), and 0.75 (represent high quantiles of Islamic finance for entrepreneurial business) simultaneously with bootstrap technique over 1000 iteration to understand the total link between Islamic finance for entrepreneurial business (IFENB) which is the main exogenous variable on economic growth (GDP) which is the endogenous variable (Table 2).

IV. Results and Discussion

Table 2: Bootstrap quantile regression outputs

Simultaneous Quantile regression; Simulation: A bootstrap technique with 1000 iteration; Obs = 31

The 25th Quantile: R² = 0.6895; The 50th Quantile: R² = 0.6787, The 75th Quantile: R² = 0.6374

Variables	*Coef.*	*Std. Err.*	*t*	*P > |t|*	*[95% Confidence*	*Interval]*
The 25th Quantile						
IFENB	1.721425	0.571364	3.01	0.0056**	0.549082	2.893767
CPI	-473.0290	676.2920	-0.69	0.4903	-1860.666	914.6076
GFCF	1.222030	0.895289	1.36	0.1835	-0.614952	3.059011
Constant	75483.23	74676.81	1.01	0.3211	-77740.92	228707.4
The 50th Quantile						
IFENB	2.037562	0.646655	3.15	0.0040**	0.710735	3.364390
CPI	-1143.263	868.6850	-1.31	0.1992	-2925.658	639.1313
GFCF	1.209587	0.925343	1.30	0.2022	-0.689060	3.108235
Constant	151746.2	98040.34	1.54	0.1333	-49415.98	352908.3
The 75th Quantile						
IFENB	2.274786	0.609716	3.73	0.0009**	1.023751	3.525820
CPI	-1104.165	732.0988	-1.50	0.1431	-2606.307	397.9781
GFCF	1.233439	0.827206	1.49	0.1475	-0.463848	2.930727
Constant	144620.5	85946.36	1.68	0.1040	-31726.89	320967.8

Note: ** Significant at the 1% level

Source: Quantile regression outputs organized by authors using STATA16.

Based on

Table, the effect of Islamic finance for entrepreneurial business has a strong positive effect on economic growth at the 50th quantile (0.50 quantiles) with 67.87% = (R^2) explaining power at a significance level of 1% (p-value of Islamic finance for entrepreneurial business (IFENB)= 0.004 which is strongly fewer than 1%). If there is an increase of 1% in the intermediate quantiles of IFENB median value then GDP will increase by 2.03% in the median value.

Whereas, the quantile regression on 25th quantile (0.25 quantiles) shows a significant positive effect of Islamic finance for entrepreneurial business has a strong positive effect on economic growth at 25th quantiles with 68.95% = (R^2) explaining power at a significance level of 1% (p-value of Islamic finance for entrepreneurial business (IFENB)= 0.0056 which is strongly fewer than 1%). If there is an increase of 1% in the low quantiles of IFENB median value then GDP will increase by 1.72% in the median value.

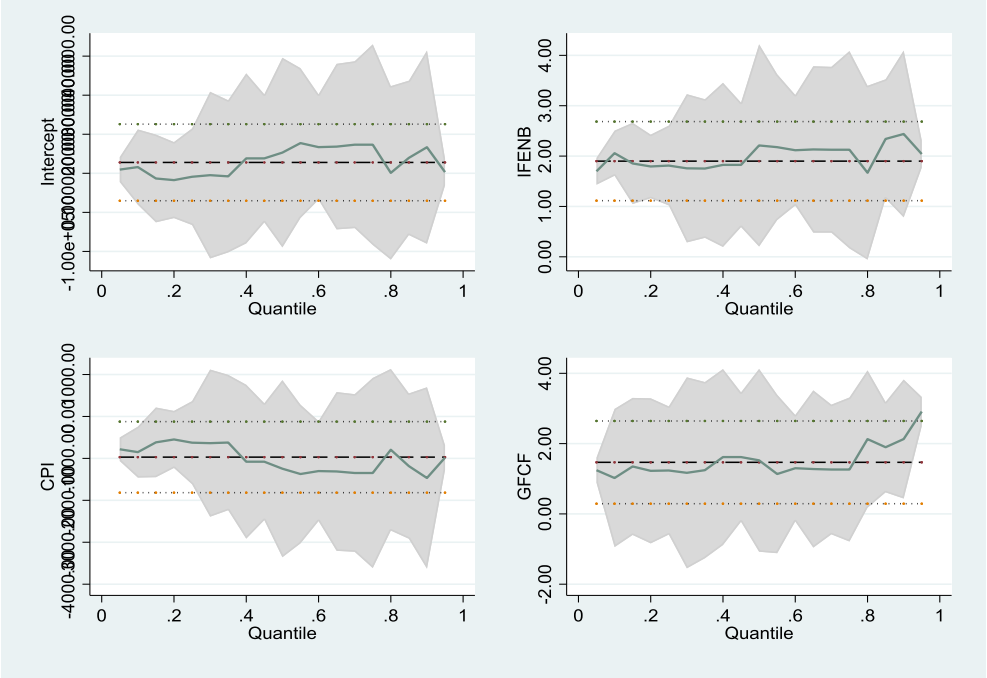
Fitting the quantile regression on 75th quantile (0.75 quantiles), Islamic finance for entrepreneurial business has a strong positive effect on economic growth with 63.74% = (R^2) explaining power at a significance level of 1% (p-value of Islamic finance for entrepreneurial business (IFENB)= 0.000 which is strongly fewer than 1%). If there is an increase of 1% in the high quantiles of IFENB median value then GDP will increase by 2.27% in the median value.

As a result, Islamic finance for entrepreneurial business (IFENB) has a positive effect on economic growth all over 0.25, 0.50, and 0.75 quantiles, which indicates that the increase in Islamic finance for entrepreneurial business (IFENB) is increasing economic growth in Malaysia. Consequently, this outcome is validating hypothesis *H1* that Islamic finance for entrepreneurial business is enhancing economic growth and is confirming the validity of the theoretical concept of King and Levine (1993), and Stulz (2000) that financing entrepreneurial business will promote significantly the economic growth.

Concerning the control variables, consistent with the economic common concept, GFCF was associated positively with economic growth, while the CPI was associated negatively with economic growth, though, all of these control macro-economic factors, and the constant were not statistically significant to economic growth all over quantiles.

Regarding quantile diagnostics, Fig 4 provides the graph of checking how the effects of Islamic finance for entrepreneurial business (IFENB) are regressing over quantiles. which indicates that Islamic finance for entrepreneurial business (IFENB) is affecting positively economic growth across all the quantiles.

Fig. (4): Diagnostics graphs of the spreading over quantiles



Source: Quantile regression outputs organized by authors using STATA16

V. Conclusion

This study aims to prove empirically that Islamic finance for entrepreneurial business is promoting economic growth within the "endogenous growth model" In Malaysia based on the theoretical framework of endogenous growth. Thus, the empirical investigation in this paper would fill the literature gap by delivering an empirical proven beneficial experiment from Malaysia relating to the contribution of Islamic finance for the entrepreneurial business to economic growth. Therefore, this study could support researchers and decision-makers who want to achieve economic growth through empowering entrepreneurial business with Islamic finance as alternative finance next to conventional finance. As well, by applying the bootstrapped quantile regression, the results showed that Islamic finance for entrepreneurial business is significant to economic growth in Malaysia within the "endogenous growth model" all over 0.25, 0.5, 0.75 quantiles. Additionally, this study has achieved robust evidence that confirmed the validity that Malaysia is a successful experiment concerning the promotion of economic growth through empowering entrepreneurial business with Islamic finance, this paper confirmed empirically the results of Rudnyckyj (2020) that Malaysia is a valuable experiment concerning the contribution of Islamic finance for the entrepreneurial business to economic growth. Additionally, the estimated results confirmed the genuineness validity of the assumption about the positive effect of Islamic finance for entrepreneurial

business on economic growth from the synchronized behaviour due to a similar growth ratio between those two factors in Malaysia. As a result of King and Levine's (1993) theoretical analysis, which constructs modelling of endogenous growth from finance and entrepreneurship, the finance mechanism evaluates prospective entrepreneurs, arranges savings to finance the most appealing activities to increase productivity, which boosts the potential for profitable innovation and thus increases economic growth. As a result, the financial sector boosts economic growth by increasing the pace of innovation in the entrepreneurship productive sector. By projecting this theory of King and Levine (1993) that is based on endogenous growth in this paper, Islamic finance for entrepreneurial business has proven to be a viable alternative to conventional finance that can boost economic growth by increasing the level of innovation in the productive entrepreneurial sector.

Above and beyond, as an answer to the main study' question, Islamic finance for entrepreneurial business is enhancing economic growth in Malaysia. Thus, this paper extracted a real successful experiment from Malaysia concerning the empowering of entrepreneurial business of small and medium enterprises (SMEs) with Islamic finance, in which the Malaysian experiment can be beneficial for many countries to learn to achieve a notable level of economic growth through Islamic finance of the entrepreneurial business. In brief, this paper provides important evidence for the validity of adopting the Malaysian experiment as a valuable experiment concerning empowering entrepreneurial domain with Islamic finance to achieve economic growth, as this research serves as a global guide for researchers, monetary policymakers, regulators, government associated authorities, and decision-makers to the necessity of merging Islamic finance as a major player to empower entrepreneurial business especially for Muslim countries with the remarkable population who trust Islamic finance and can't trust conventional finance.

This study has some recommendations to learn from the Malaysian experience surrounding the financing of the entrepreneurial business using the mechanism of Islamic finance as the following:

- The necessity of adopting Islamic finance as a financing mechanism that is no less important than traditional finance in order to achieve economic growth, through financing the entrepreneurial activities of small and medium enterprises, and this is evidenced by Malaysia's success in Islamic financing of many important contracting businesses such as agriculture.
- The necessity of establishing an Islamic financial market (an Islamic stock exchange) specialized in financing the entrepreneurial business of small and medium-sized enterprises such as Malaysia, especially in countries

that include a social segment with an Islamic doctrine, where it is forbidden to deal with traditional financing mechanisms based on interest (Riba which is usury) and Islamic financial transactions are preferred.

- The necessity of introducing new Islamic financing formulas that stimulate the entrepreneurial labour market, especially in light of the growth of Islamic fintech start-ups, which require innovative and modern Islamic financing.

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