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Research Article

THE EFFECTIVENESS OF SHARIA MICROFINANCE INSTITUTIONS IN PROMOTING ECONOMIC INCLUSION FOR SMES

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Abstract

Small and Medium Enterprises (SMEs) play a crucial role in economic growth, employment creation, and poverty reduction; however, many continue to face financial exclusion due to limited access to formal financial services. Conventional financial institutions frequently impose collateral requirements and lending conditions that restrict financing opportunities for small business owners. Sharia Microfinance Institutions (SMFIs) have emerged as alternative financial intermediaries that provide Sharia-compliant financing and developmental support aimed at enhancing economic inclusion. This study aims to evaluate the effectiveness of Sharia Microfinance Institutions in promoting economic inclusion among SMEs and to examine the factors that influence inclusion outcomes. A quantitative research design was employed involving 400 SME owners who participated in Sharia microfinance programs. Data were collected through structured questionnaires and analyzed using Structural Equation Modeling (SEM). Findings indicate that access to Sharia financing, institutional trust, financial literacy support, and business development assistance significantly contribute to economic inclusion. Access to Sharia-compliant financing emerged as the strongest predictor of inclusion, while non-financial services such as entrepreneurial training and financial education enhanced the effectiveness of financing interventions. Increased participation in Sharia microfinance programs was associated with improved financial access, business expansion, income growth, and entrepreneurial empowerment. The study concludes that Sharia Microfinance Institutions function as comprehensive development partners that promote sustainable economic inclusion through the integration of ethical financing principles, capacity building, and business support services for SMEs.

Keywords: Economic Inclusion, Financial Literacy, Sharia Microfinance

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INTRODUCTION

Small and Medium Enterprises (SMEs) constitute one of the most important pillars of economic development in both developed and developing countries. Their contribution extends beyond economic growth to include employment generation, poverty reduction, income distribution, and social stability (Ghaemi Asl et al., 2024; Ryandono et al., 2025). National economies increasingly depend on the resilience and productivity of SMEs to sustain inclusive development and strengthen local economic ecosystems (Kholidah et al., 2022). Despite their strategic role, many SMEs continue to experience structural barriers that limit their ability to access formal financial services, restricting opportunities for expansion and long-term sustainability (Meskovic et al., 2023; Mohammed et al., 2024).

Financial exclusion remains a persistent challenge affecting millions of entrepreneurs worldwide. Conventional financial institutions often perceive SMEs, particularly micro and small enterprises, as high-risk clients due to limited collateral, inadequate financial records, and uncertain business performance (Abu Al-Haija et al., 2025; Rehan et al., 2025). These constraints reduce access to credit, savings products, insurance services, and other financial instruments necessary for business growth. Limited financial access frequently compels entrepreneurs to rely on informal financing mechanisms that may be costly, unstable, and insufficient for supporting sustainable business development (Shikur & Akkas, 2024).

Sharia Microfinance Institutions (SMFIs) have emerged as alternative financial intermediaries designed to address these challenges through financial services that comply with Islamic principles (Issa et al., 2025). Unlike conventional lending systems that rely primarily on interest-based transactions, SMFIs emphasize risk-sharing, social justice, ethical finance, and financial inclusion (Khamisu et al., 2024; Maldonado-Castro et al., 2024). Products such as murabaha, musharakah, mudharabah, and qard al-hasan provide financing opportunities tailored to the needs of underserved entrepreneurial communities. Growing recognition of Islamic social finance and inclusive economic development has increased interest in understanding the effectiveness of Sharia microfinance institutions in promoting economic inclusion among SMEs (Masrizal et al., 2024).

Access to finance continues to represent one of the most significant obstacles confronting SMEs in many regions. Financial exclusion limits entrepreneurial capacity to invest, innovate, expand operations, and respond to market opportunities (Ghaemi Asl et al., 2023). Existing evidence suggests that a considerable proportion of SMEs remain underserved by conventional banking systems despite numerous policy initiatives intended to improve financial accessibility (Yumna et al., 2024). Persistent financing gaps create barriers that hinder both individual business development and broader economic progress (Alam & Miah, 2024).

Sharia microfinance institutions have been promoted as mechanisms capable of addressing financial exclusion while simultaneously advancing social and economic justice (Kasmon et al., 2024). Questions remain regarding the actual effectiveness of these institutions in achieving their intended objectives (Lestari et al., 2023). Variations in institutional capacity, financing models, governance structures, outreach strategies, and regulatory environments may influence the extent to which SMFIs contribute to economic inclusion. Limited consensus exists concerning the specific factors that determine successful outcomes among SME beneficiaries (Syarif & Aysan, 2024).

Economic inclusion extends beyond access to financing and encompasses broader dimensions such as financial participation, entrepreneurial empowerment, income generation, business sustainability, and social mobility (Ramaian Vasantha et al., 2025). Existing assessments frequently focus on financing performance indicators without adequately examining the multidimensional impacts of Sharia microfinance interventions (Şahin, 2025). Insufficient understanding of these broader outcomes restricts the ability of policymakers, practitioners, and researchers to evaluate the true contribution of SMFIs to inclusive economic development (Rofik et al., 2025; Sanusi et al., 2025).

This study aims to evaluate the effectiveness of Sharia Microfinance Institutions in promoting economic inclusion among SMEs (Yusgiantoro et al., 2024). Particular attention is directed toward understanding how Islamic microfinance services influence financial accessibility, entrepreneurial capacity, and business sustainability. The study seeks to provide a comprehensive assessment of the role of SMFIs in addressing financial exclusion and supporting inclusive economic participation (Bin-Armia et al., 2024; Megat et al., 2024).

Another objective of the study is to identify the institutional, financial, and social factors that contribute to successful economic inclusion outcomes (R.V. et al., 2024). Investigation focuses on the relationship between financing mechanisms, service accessibility, client engagement, and business development indicators. Examination of these factors is expected to generate insights regarding the strengths and limitations of current Sharia microfinance practices (Afdawaiza et al., 2025; Xu et al., 2025).

The study further aims to develop a conceptual understanding of how Islamic financial principles can support sustainable and inclusive economic development (Alsmadi, 2024). Findings are expected to contribute to the formulation of evidence-based recommendations for policymakers, financial institutions, and development organizations seeking to strengthen SME empowerment initiatives (Tlemsani et al., 2023; Trotta et al., 2026). Achievement of these objectives may support broader efforts aimed at reducing financial inequality and enhancing economic resilience among underserved populations (Luh & Kusi, 2023).

Previous studies have extensively explored the relationship between microfinance and economic development. Existing literature has demonstrated that access to financial services can improve entrepreneurial opportunities, household welfare, income generation, and poverty reduction (Ardianto et al., 2024; 2024). Research examining Islamic microfinance has similarly highlighted the ethical foundations of Sharia-compliant financial systems and their potential contribution to social justice and inclusive growth. These investigations have provided valuable insights into the operational characteristics and developmental roles of microfinance institutions (Hussain, 2025; Subagyo et al., 2022).

Current literature remains fragmented regarding the evaluation of effectiveness outcomes associated with Sharia microfinance institutions. Many studies focus primarily on financial performance indicators such as loan repayment rates, portfolio quality, institutional sustainability, or financing outreach (Widiastuti et al., 2025). Limited attention has been directed toward assessing broader dimensions of economic inclusion, including financial empowerment, business resilience, market participation, and long-term socioeconomic mobility among SME beneficiaries (Puteri et al., 2025).

Comprehensive frameworks integrating financial, social, and developmental dimensions of economic inclusion remain relatively scarce. Existing studies frequently examine either institutional performance or beneficiary outcomes without systematically connecting the two perspectives (Sethy & Goyari, 2022). Insufficient understanding persists regarding the mechanisms through which Sharia microfinance institutions translate Islamic financial principles into measurable economic inclusion outcomes. Addressing this gap can contribute to a more holistic understanding of the effectiveness of Islamic microfinance in supporting SME development and inclusive economic growth (Mawardi et al., 2026; Permatasari et al., 2024).

The novelty of this study lies in its integrated evaluation of Sharia microfinance effectiveness through the lens of economic inclusion rather than focusing exclusively on financial performance indicators. Existing research often measures institutional success using operational efficiency, repayment performance, or outreach statistics. This study expands the analytical perspective by examining how Sharia microfinance influences broader dimensions of financial participation, entrepreneurial empowerment, and socioeconomic advancement among SMEs.

Innovative value is further reflected in the development of a multidimensional framework that combines Islamic finance principles, financial inclusion theory, and SME development perspectives. Integration of these theoretical domains enables a more comprehensive assessment of how Sharia-compliant financial services contribute to inclusive economic outcomes. Examination of financial access, business growth, empowerment, and social mobility within a single framework offers a deeper understanding of the developmental role of Sharia microfinance institutions.

The importance of this research extends beyond academic inquiry to encompass practical and policy relevance. Governments, development agencies, and Islamic financial institutions increasingly recognize financial inclusion as a critical component of sustainable development strategies. SMEs remain essential contributors to employment creation, economic diversification, and community resilience, yet many continue to face barriers to formal financial participation. Findings from this study are expected to provide valuable evidence for strengthening Sharia microfinance policies and practices while contributing to broader efforts aimed at achieving equitable and inclusive economic development.

RESEARCH METHOD

Research Design

This study employed a quantitative research design using a cross-sectional survey approach to evaluate the effectiveness of Sharia Microfinance Institutions (SMFIs) in promoting economic inclusion among Small and Medium Enterprises (SMEs). The quantitative approach was selected because the study aimed to measure the relationships between Sharia microfinance services and various dimensions of economic inclusion, including financial access, business growth, entrepreneurial empowerment, and financial participation. Emphasis was placed on examining the extent to which participation in Sharia microfinance programs contributes to the economic advancement of SME owners (Migliavacca et al., 2023).

A conceptual framework was developed by integrating theories of financial inclusion, Islamic finance, and SME development. The framework assumed that access to Sharia-compliant financing, financial literacy support, business assistance services, and institutional trust positively influence economic inclusion outcomes. Economic inclusion was conceptualized as a multidimensional construct encompassing access to financial services, business sustainability, income improvement, market participation, and entrepreneurial empowerment. This integrated framework enabled a comprehensive assessment of the developmental impact of Sharia microfinance institutions.

Structural Equation Modeling (SEM) was employed as the primary analytical technique because it allows simultaneous examination of multiple latent variables and complex causal relationships. The research design facilitated both measurement model validation and structural model testing, thereby providing a robust methodological basis for evaluating the effectiveness of Sharia microfinance interventions in supporting SME development and economic inclusion.

Research Target/Subject

The population of this study consisted of SME owners who had received financial services from Sharia Microfinance Institutions operating in selected regions. Eligible participants included entrepreneurs engaged in trade, services, agriculture, manufacturing, and home-based industries. These enterprises represent important contributors to local economic development while frequently encountering barriers to accessing formal financial services.

Sample selection was conducted using purposive sampling techniques. Respondents were required to meet several criteria, including active participation in Sharia microfinance programs for at least one year, ownership of a registered or operational SME, and willingness to provide information regarding business performance and financial experiences. Application of these criteria ensured that participants possessed sufficient experience to evaluate the impact of Sharia microfinance services on their economic activities (Migliavacca et al., 2022).

A total of 400 SME owners were selected as research participants. Sample size determination followed recommendations for SEM analysis, which require an adequate number of observations to estimate latent variable relationships reliably. Inclusion of respondents from diverse business sectors increased the representativeness of the sample and strengthened the generalizability of the findings across different SME contexts.

Research Procedure

The research process commenced with the development and validation of the survey instrument. Expert evaluations and pilot testing involving 40 SME owners were conducted to assess item clarity, relevance, and comprehensibility. Revisions were implemented based on participant feedback and preliminary statistical analysis to improve the overall quality of the instrument.

Data collection was carried out through direct field surveys and online questionnaires distributed to SME owners participating in Sharia microfinance programs. Respondents were informed about the objectives of the study, confidentiality procedures, and ethical considerations prior to participation. Voluntary participation and informed consent were obtained from all respondents. Collection activities were conducted over a three-month period to ensure adequate response rates and data completeness.

Data analysis proceeded through several stages. Preliminary analysis included data screening, missing value examination, normality assessment, and descriptive statistical analysis. Measurement model evaluation was subsequently conducted to assess validity and reliability. Structural Equation Modeling was then employed to test the hypothesized relationships among variables and evaluate the effectiveness of Sharia microfinance institutions in promoting economic inclusion. Interpretation of the findings focused on identifying the contribution of Sharia microfinance services to SME empowerment, financial participation, and sustainable economic development (Sulaeman et al., 2026).

Instruments, and Data Collection Techniques

Data were collected using a structured questionnaire developed from validated instruments reported in previous studies on Islamic finance, financial inclusion, and SME development. The questionnaire consisted of two sections. The first section gathered demographic and business-related information, including age, gender, educational background, business sector, business age, and financing history. The second section measured the latent variables included in the conceptual framework.

Measurement items utilized a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). Variables measured in the study included access to Sharia financing, institutional trust, financial literacy support, business development assistance, and economic inclusion outcomes. Economic inclusion indicators covered access to financial products, income improvement, business expansion opportunities, financial participation, and entrepreneurial empowerment. Multiple indicators were employed for each construct to ensure comprehensive measurement (Sofyan et al., 2024).

Validity and reliability assessments were conducted before the main data analysis. Content validity was evaluated through expert review involving scholars in Islamic economics, microfinance, and entrepreneurship. Construct validity was assessed using Confirmatory Factor Analysis (CFA), while reliability was examined using Cronbach’s alpha and composite reliability coefficients. Threshold values above 0.70 were adopted to confirm satisfactory measurement quality.

RESULTS AND DISCUSSION

The study involved 400 SME owners who had actively participated in Sharia Microfinance Institution (SMFI) programs for at least one year. Respondents were distributed across several economic sectors, including trade (36.5%), services (28.0%), agriculture (17.5%), manufacturing (11.5%), and home-based industries (6.5%). Male entrepreneurs accounted for 58.3% of the sample, while female entrepreneurs represented 41.7%. The average duration of participation in Sharia microfinance programs was 3.9 years, indicating substantial exposure to financing and business support services.

Descriptive statistics revealed favorable perceptions regarding the effectiveness of Sharia microfinance services. Access to Sharia financing recorded a mean score of 4.21 (SD = 0.57), institutional trust achieved a mean of 4.18 (SD = 0.61), financial literacy support reached 4.02 (SD = 0.65), and business development assistance obtained 3.96 (SD = 0.68). Economic inclusion demonstrated the highest overall score with a mean value of 4.24 (SD = 0.54).

Table 1. Descriptive Statistics of Research Variables

Variable	Mean	SD
Access to Sharia Financing	4.21	0.57
Institutional Trust	4.18	0.61
Financial Literacy Support	4.02	0.65
Business Development Assistance	3.96	0.68
Economic Inclusion	4.24	0.54

The descriptive findings indicate that SME owners generally perceive Sharia microfinance institutions as effective providers of financial and developmental services. High scores for access to financing suggest that SMFIs successfully address barriers commonly encountered in conventional financial systems, particularly among entrepreneurs with limited collateral and restricted access to formal credit facilities. Availability of Sharia-compliant financing products appears to enhance financial participation among underserved business owners.

Institutional trust also emerged as a prominent feature of the findings. Respondents expressed strong confidence in the transparency, fairness, and ethical principles practiced by Sharia microfinance institutions. Positive perceptions regarding financial literacy support and business development assistance suggest that SMFIs provide value beyond financing alone. Educational and advisory services appear to contribute to broader economic empowerment and entrepreneurial capacity building.

Measurement model assessment demonstrated satisfactory validity and reliability across all constructs. Factor loadings ranged from 0.734 to 0.912, exceeding the recommended threshold of 0.70. Composite reliability values varied between 0.851 and 0.927, while Cronbach's alpha coefficients ranged from 0.806 to 0.915. Average Variance Extracted (AVE) values exceeded 0.50 for all latent variables, confirming acceptable convergent validity.

Discriminant validity analysis further demonstrated clear differentiation among the study constructs. Cross-loading examination and Fornell-Larcker criterion assessment confirmed that each variable represented a distinct conceptual dimension. These results indicate that the measurement model possesses strong psychometric properties and provides a reliable foundation for subsequent structural model evaluation.

Structural Equation Modeling results revealed significant positive relationships among the proposed variables. Access to Sharia financing demonstrated a strong positive effect on economic inclusion ($\beta = 0.392$, $p < 0.001$). Institutional trust also exhibited a significant influence ($\beta = 0.271$, $p < 0.001$), while financial literacy support contributed positively to economic inclusion outcomes ($\beta = 0.238$, $p < 0.001$). Business development assistance displayed a meaningful effect as well ($\beta = 0.214$, $p < 0.01$).

The structural model explained 69.3% of the variance in economic inclusion. Goodness-of-fit indicators demonstrated satisfactory model performance, including CFI = 0.951, TLI = 0.944, RMSEA = 0.045, and SRMR = 0.041. These findings indicate that the proposed model adequately explains the factors influencing economic inclusion among SMEs participating in Sharia microfinance programs.

Analysis of the structural relationships revealed that access to Sharia financing represented the strongest determinant of economic inclusion. Entrepreneurs who obtained greater access to financing products reported higher levels of business expansion, financial participation, and income improvement. Financing accessibility therefore appears to function as a critical mechanism through which Sharia microfinance institutions promote economic empowerment.

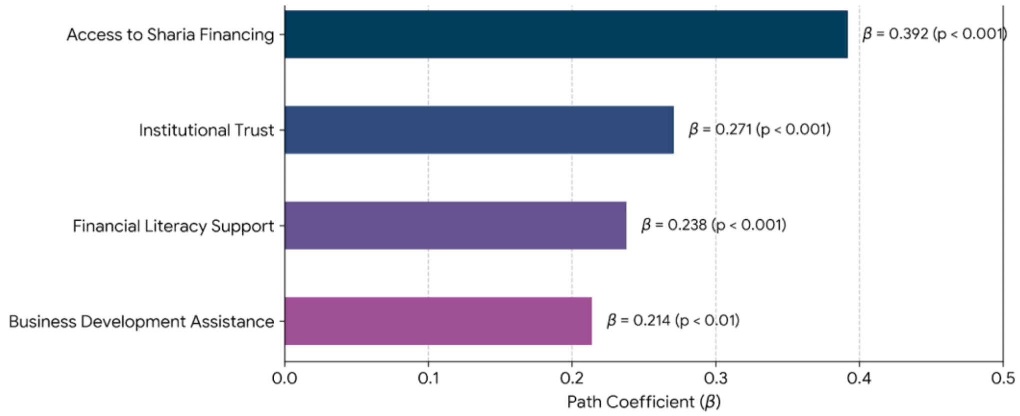

Figure 1. Determinants of Economic Inclusion in Sharia Microfinance

Relationships among institutional trust, financial literacy support, and economic inclusion suggest that non-financial services are equally important components of successful inclusion strategies. Trust strengthens client engagement with financial institutions, while financial literacy enhances entrepreneurs' ability to utilize financial resources effectively. These interconnected relationships indicate that economic inclusion emerges through a combination of financial and developmental interventions.

A representative case study involved a small food-processing enterprise operating in a rural district. Prior to receiving Sharia microfinance support, the entrepreneur relied on informal lenders charging high financing costs. Limited working capital constrained production capacity and prevented the business from entering broader market networks. Monthly revenues remained unstable, and business growth opportunities were restricted (Perrin & Hyland, 2026; Widiastuti et al., 2022).

Participation in a Sharia microfinance program enabled the entrepreneur to access murabaha financing for equipment acquisition and inventory expansion. Business development assistance provided additional support in marketing and financial management. Within two years, monthly revenue increased by approximately 32%, while production capacity expanded substantially. The entrepreneur also gained access to formal savings products and digital financial services.

A second case study involved a female-owned tailoring business located in an urban area. Financial exclusion previously limited opportunities for business growth and prevented access to formal financing institutions. Business operations were largely dependent on personal savings and informal borrowing arrangements.

Financing support obtained through a Sharia microfinance institution enabled investment in new sewing equipment and workforce expansion. Participation in financial literacy programs improved record-keeping practices and strengthened financial planning. Annual business income increased by approximately 27%, while customer reach expanded through improved operational capacity and marketing activities.

The rural enterprise case demonstrates how Sharia microfinance can facilitate economic inclusion by providing affordable financing and complementary business support services. Improved access to capital enabled productive investment, while financial guidance strengthened managerial capabilities. Combined interventions generated measurable improvements in income, productivity, and financial participation.

Observations from the urban tailoring business illustrate the importance of integrating financing services with financial education initiatives. Access to capital alone may not guarantee sustainable business growth. Entrepreneurial knowledge and financial management skills contribute significantly to the effective utilization of financial resources and long-term business resilience.

Findings from both case studies reinforce the statistical results obtained through SEM analysis. Positive outcomes observed at the individual business level align with the broader quantitative evidence demonstrating the effectiveness of Sharia microfinance institutions in promoting economic inclusion. Consistency between statistical findings and real-world experiences strengthens confidence in the proposed model.

Broader explanatory patterns suggest that economic inclusion is influenced by multiple interconnected factors. Financing accessibility, institutional trust, financial literacy, and business support services collectively contribute to entrepreneurial empowerment. Sharia microfinance institutions therefore function as multidimensional development actors rather than merely financial intermediaries.

The findings indicate that Sharia Microfinance Institutions play a significant role in promoting economic inclusion among SMEs. Access to Sharia-compliant financing serves as the primary driver of inclusion, while institutional trust, financial literacy support, and business development assistance further strengthen entrepreneurial participation in formal economic systems. Economic inclusion therefore emerges through a combination of financial accessibility and capacity-building interventions.

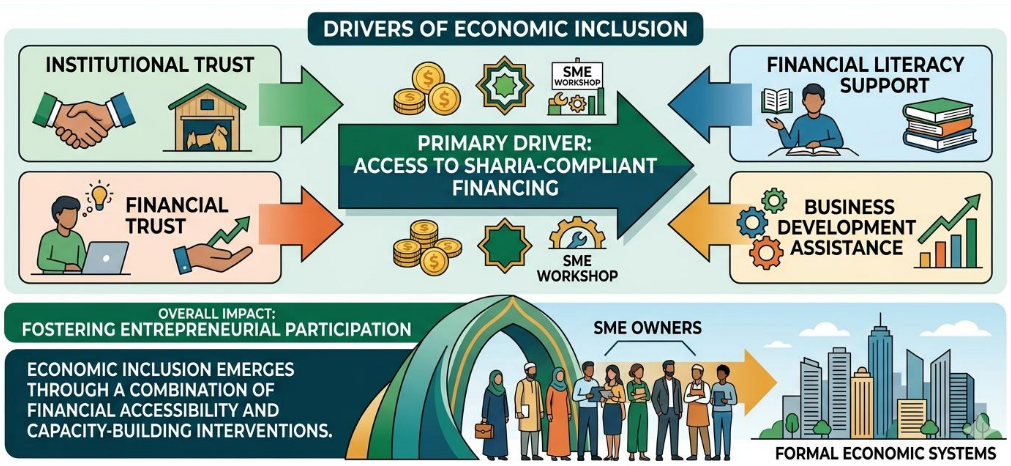

Figure 2. Sharia Microfinance Institutions & Economic Inclusion for SMEs: Key Findings

Overall evidence suggests that the effectiveness of Sharia microfinance extends beyond traditional lending functions. Sustainable economic inclusion requires integrated approaches that combine ethical financing principles with education, empowerment, and business development support. Sharia microfinance institutions appear well positioned to contribute to inclusive economic growth by addressing both financial and developmental needs among underserved SME communities (Campiglio et al., 2025).

The findings demonstrate that Sharia Microfinance Institutions (SMFIs) play a significant role in promoting economic inclusion among SMEs. Access to Sharia-compliant financing emerged as the strongest determinant of economic inclusion, indicating that financial accessibility remains a fundamental requirement for entrepreneurial development. SMEs that received financing support reported improvements in business expansion, income generation, and participation in formal financial systems. These outcomes suggest that Sharia microfinance serves as an effective mechanism for reducing financial exclusion among underserved business communities.

Institutional trust was identified as another important contributor to economic inclusion. Entrepreneurs who expressed confidence in the transparency, fairness, and ethical principles of Sharia microfinance institutions demonstrated stronger engagement with financial services. Trust appears to facilitate long-term relationships between financial institutions and SME clients, thereby increasing the effectiveness of financial inclusion initiatives.

Financial literacy support also exerted a significant positive influence on economic inclusion outcomes. SME owners who participated in educational and advisory programs exhibited greater ability to manage finances, evaluate investment opportunities, and utilize financing products effectively. Financial knowledge therefore functions as a complementary resource that enhances the developmental impact of microfinance interventions.

Business development assistance contributed meaningfully to entrepreneurial empowerment and business sustainability. Respondents who received mentoring, training, and operational guidance reported stronger business performance and greater confidence in decision-making processes. Economic inclusion therefore appears to result from an integrated combination of financing services and developmental support mechanisms rather than financial access alone.

The findings are consistent with previous studies that emphasize the importance of microfinance in promoting financial inclusion and entrepreneurial development. Earlier research has demonstrated that access to financing improves business productivity, increases income levels, and enhances opportunities for economic participation. Similar patterns were observed in the present study, where financing accessibility emerged as the strongest predictor of economic inclusion among SMEs.

Results also support prior investigations highlighting the unique role of Islamic microfinance institutions in addressing financial exclusion. Existing literature frequently argues that Sharia-compliant financing models promote social justice, ethical finance, and equitable access to financial resources. Comparable evidence emerged in this study, indicating that Sharia microfinance institutions contribute not only to financial access but also to broader dimensions of empowerment and socioeconomic development.

Differences become evident when comparing the relative importance of institutional trust. Several previous studies focused primarily on financing volume and repayment performance as indicators of effectiveness. Findings from the present study suggest that trust constitutes a critical factor influencing economic inclusion outcomes. Entrepreneurial participation appears to depend not only on the availability of financial products but also on confidence in the institution providing those services.

Variations were also identified regarding the role of non-financial services. Some earlier studies treated financial literacy and business development assistance as supplementary activities. Findings from this research indicate that these services are integral components of successful inclusion strategies. Economic inclusion therefore appears to be more multidimensional than traditional financial performance models suggest (Mohammed et al., 2024; Puteri et al., 2025).

The findings signify that economic inclusion should be understood as a multidimensional process rather than a simple increase in access to financing. Financial resources remain important, yet broader developmental outcomes depend upon the interaction of financial, educational, and institutional factors. Entrepreneurs require both capital and capabilities to participate effectively in economic activities.

Evidence also signifies the relevance of Islamic financial principles in addressing contemporary development challenges. Sharia microfinance institutions operate within a framework emphasizing justice, mutual benefit, ethical conduct, and social responsibility. Positive inclusion outcomes observed in this study suggest that these principles can contribute meaningfully to sustainable economic development.

Patterns identified throughout the analysis further signify that financial exclusion often reflects structural barriers extending beyond income limitations. Limited knowledge, lack of institutional trust, and inadequate business skills may prevent entrepreneurs from fully utilizing available opportunities. Effective inclusion strategies must therefore address these interconnected constraints simultaneously.

Results additionally signify the importance of institutional credibility in fostering economic participation. Entrepreneurs are more likely to engage with financial services when they perceive institutions as transparent, accountable, and aligned with their values. Economic inclusion therefore depends not only on financial infrastructure but also on trust-based relationships between institutions and communities.

Implications for policymakers involve the need to strengthen support for Sharia microfinance initiatives as instruments of inclusive economic development. Regulatory frameworks should encourage institutional sustainability while ensuring accessibility for underserved SME populations. Policy interventions that integrate financial inclusion with entrepreneurial development may generate broader socioeconomic benefits.

Implications for Sharia microfinance institutions include the importance of expanding non-financial services alongside financing products. Financial literacy programs, mentoring activities, and business development support appear essential for maximizing the effectiveness of inclusion initiatives. Institutional strategies should therefore prioritize comprehensive service delivery rather than focusing exclusively on financing operations.

Implications for SME development are equally significant. Improved access to Sharia-compliant financing and business support services can enhance entrepreneurial resilience, encourage innovation, and facilitate market participation. Such outcomes contribute to stronger local economies and greater economic stability among small business communities.

Implications for development organizations extend beyond financial inclusion objectives. Evidence suggests that integrated approaches combining finance, education, and empowerment generate more sustainable outcomes than isolated interventions. Collaborative partnerships among governments, financial institutions, and community organizations may therefore enhance the effectiveness of economic inclusion programs.

The observed outcomes can be explained by the ability of Sharia microfinance institutions to address barriers commonly encountered by SMEs. Conventional financial institutions often impose collateral requirements and procedural constraints that limit accessibility. Sharia microfinance models provide alternative mechanisms that accommodate the realities of small-scale entrepreneurs, thereby expanding financial participation.

Positive effects associated with institutional trust arise because financial relationships involve uncertainty and perceived risk. Entrepreneurs are more willing to engage with financial institutions when they believe services are transparent, fair, and ethically grounded. Sharia principles contribute to this confidence by emphasizing accountability and equitable treatment.

Financial literacy support influences inclusion because access to capital alone does not guarantee productive outcomes. Entrepreneurs require knowledge and skills to manage resources effectively, evaluate opportunities, and make informed business decisions. Educational interventions therefore enhance the ability of SME owners to transform financial access into meaningful economic progress.

Business development assistance contributes to inclusion because SMEs frequently encounter operational and managerial challenges that extend beyond financing needs. Guidance in areas such as marketing, record keeping, strategic planning, and customer management strengthens business performance and sustainability. Combined financial and developmental support therefore generates stronger inclusion outcomes than financing alone (Meskovic et al., 2023; Yusgiantoro et al., 2024).

Future research should examine the long-term effects of Sharia microfinance participation on business sustainability, wealth creation, and intergenerational economic mobility. Longitudinal studies may provide deeper insights into whether inclusion gains remain stable over extended periods. Such evidence would strengthen understanding of the enduring developmental impact of Sharia microfinance institutions.

Comparative investigations involving different countries, regulatory environments, and institutional models would further enrich the literature. Variations in governance structures, cultural contexts, and economic conditions may influence the effectiveness of inclusion strategies. Broader comparative evidence would support the development of more context-sensitive policy recommendations.

Emerging technologies such as digital Islamic finance, mobile banking, financial technology platforms, and artificial intelligence deserve greater scholarly attention. Integration of technological innovation with Sharia microfinance services may create new opportunities for expanding outreach and improving service efficiency among underserved populations.

Practical initiatives should focus on strengthening institutional capacity, expanding financial literacy programs, and enhancing collaboration among financial institutions, governments, and development agencies. Comprehensive approaches that combine financing, education, trust-building, and entrepreneurial support are likely to generate more sustainable economic inclusion outcomes for SMEs in the future.

CONCLUSION

The most important finding of this study is that Sharia Microfinance Institutions significantly contribute to economic inclusion among SMEs through a combination of financial and non-financial interventions. Access to Sharia-compliant financing emerged as the strongest determinant of economic inclusion, while institutional trust, financial literacy support, and business development assistance also demonstrated significant positive effects. Unlike conventional assessments that emphasize financing performance alone, the findings reveal that successful economic inclusion is achieved through an integrated approach that combines financial accessibility, entrepreneurial empowerment, capacity building, and ethical financial practices. These results indicate that Sharia microfinance institutions function not merely as providers of capital but as comprehensive development partners capable of enhancing financial participation, business sustainability, and socioeconomic advancement among SME owners.

The principal contribution of this research lies in the development of a multidimensional framework for evaluating the effectiveness of Sharia microfinance institutions from the perspective of economic inclusion. Conceptually, the study integrates Islamic finance principles, financial inclusion theory, and SME development perspectives to explain how Sharia-compliant financial services influence entrepreneurial outcomes. Methodologically, the study contributes empirical evidence through the application of Structural Equation Modeling to examine the relationships among financing accessibility, institutional trust, financial literacy, business support services, and economic inclusion. This integrated approach extends existing literature by moving beyond traditional financial performance indicators and providing a more comprehensive understanding of how Islamic microfinance institutions contribute to inclusive economic development.

Several limitations should be acknowledged. The study employed a cross-sectional research design, limiting the ability to observe long-term changes in economic inclusion and business performance among SME beneficiaries. Data collection relied primarily on self-reported perceptions, which may be influenced by individual experiences and subjective evaluations. Geographic and institutional variations may also affect the generalizability of the findings across different contexts. Future research should adopt longitudinal designs to assess the sustainability of inclusion outcomes over time, expand comparative analysis across countries and institutional models, and investigate the role of emerging technologies such as digital Islamic finance, financial technology platforms, and artificial intelligence in enhancing the effectiveness of Sharia microfinance services. Such investigations may provide deeper insights into the evolving contribution of Islamic microfinance to sustainable and inclusive economic development.

DECLARATION OF AI AND AI ASSISTED TECHNOLOGIES IN THE WRITING PROCESS

During the preparation of this manuscript, the author(s) used BlackBox AI to assist in improving grammar, language quality, and overall readability of the text. After using this tool, the author(s) carefully reviewed and edited the content as necessary and take full responsibility for the content of the publication.

AUTHOR CONTRIBUTIONS

Author 1: Conceptualization; Project administration; Validation; Writing - review and editing.

Author 2: Conceptualization; Data curation; In-vestigation.

Author 3: Data curation; Investigation.

DECLARATION OF COMPETING INTEREST

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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