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### Islamic micro-financing schemes among financial institutions

*Esquemas islámicos de microfinanciación entre las instituciones financieras*

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#### ABSTRACT

The present study aims to identify the importance of Islamic micro-financing schemes among the financial institutions and also determine the knowledge and attitudes of the respondents towards Shari'ah based financial products. A mixed-method approach, including quantitative and qualitative designs, has been employed by recruiting 255 and 15 respondents, respectively. The results showed no significant differences between respondents' knowledge and access to Shari'a-compliant finance. Similarly, there were no significant differences between respondents depending on their length of stay in the UK, ethnicity, and employment status. Moreover, this required financial support and empowerment from the government and related institutions.

**Keywords:** Conventional banking, financial institution, islamic provisions, muslims.

#### RESUMEN

El presente estudio tiene como objetivo identificar la importancia de los esquemas de microfinanciación islámicos entre las instituciones financieras y determinar el conocimiento y las actitudes de los encuestados hacia los productos financieros basados en la Sharia. Se ha empleado un enfoque de método mixto que incluye diseños cuantitativos y cualitativos, reclutando de 255 empleados, 15 encuestados. Los resultados no mostraron diferencias significativas entre el conocimiento de los encuestados y el acceso a las finanzas que cumplen con Sharia. Del mismo modo, no hubo diferencias significativas entre los encuestados en función de la duración de su estadía en el Reino Unido, el origen étnico y la situación laboral. Además, esto requería el apoyo financiero del gobierno.

**Palabras clave:** Banca convencional, disposiciones islámicas, institución financiera, musulmanes

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## INTRODUCTION

Islamic microfinance is seemed to be a new borderline, which is keenly observed by many practitioners, academics, and observers (Tamanni et al.: 2014). The Islamic and conventional microfinance banking provides a wide range of products to the disadvantaged community across the world (Nazirwan: 2015, p. 273). Both of the concepts of microfinance are accepted globally as they contribute to pulling an adverse population by enabling them to earn by getting the small capital from the microfinance institutions (Berguiga et al.: 2017). The traditional methods of financing in Islam are considered unsuitable as they charge interest that is forbidden in the financial laws of Shari'ah. This led to the trend of Islamic microfinance banking for Muslims to use financial services (Cross: 2015). Poverty is a crucial issue in the Muslim community; therefore, the Muslim community has come up with the Islamic microfinance (Nazirwan: 2015, p. 273). This provided a good opportunity for the people with lower strata communities to get an alternative and valuable source of gaining capital instead of counting on the other commercial banks (Riwajanti & Asutay: 2015, pp.1-55; Zamora-Lobato et al.: 2017, pp.133-143).

Islamic finance banking has revolutionized finance banking by providing an ethical, moral, and spiritual aspect to it (Kamruzzaman & Islam: 2015, pp.1-17). Furthermore, the Islamic finance banking has brought the millions of poor Muslims under the umbrella of earning according to the Shari'ah law, which will help them in coming out of the fence of paying interest (Ilieva et al.: 2017). Islamic finance banking is growing and changing day by day, and it is celebrated as a favorable financial industry for Muslims around the globe. Furthermore, its assets have increased to \$400 billion, and the market value is being predicted to be increasing at 10-15% per annum (Dhaoui: 2015, pp.1-19; Silva et al.: 2016, pp.123-140).

The Islamic banking sector seems to be dominant in the Islamic finance industry. It has increased by great means in the past two decades and collected \$1.9 trillion in the form of assets prevailing across the Muslim and non-Muslim regions around the globe (Aydin & Iqbal: 2018, pp.174-196). Furthermore, Islamic microfinance is a key element for economic growth and development for most of the communities as its key objective is to increase human resources (Dhaoui: 2015, pp.1-19). Financers have predicted that this development will provide encouragement for economic growth by minimizing poverty and unemployment rate among the youth. This will result in the augmentation of social and economic capacity offered by the entrepreneurial with the moral and Islamic values (Ali: 2015, pp.313-326). However, the debates are initiated on the topic of interest charge by saying that if the interest is removed, then there will not be anything to provide balance in the demand and supply in the economy (Dhaoui: 2015, pp.1-19).

The Islamic idea in finance banking has influenced the microenterprises by giving financial and non-financial guidance and the commitment to the principles of cooperation, transparency, and understanding (Islam & Alam: 2016, pp.1-9). However, the funds provided to the Islamic microfinance are contributed by Islamic institutions such as Awqaf, Qard-Hasan, Zakat, Sadaqat, and other forms of charity (Avais: 2014, pp.2250-3153; Luo et al.: 2018, pp.1-8; Belentsov et al.: 2019, pp. 201-207).

The study is significant as it reveals the impact of Islamic microfinance banking that can be discussed on the economic as well as a social basis. The providence of financial facilities to the disadvantaged community will allow them to grow their economic wellbeing, reduce the problems, and become a part of the development. Furthermore, this will let them increase their earning. On the economic impact, the latest empirical study has been conducted by Islamic Bank Bangladesh Limited, revealing an improvement in household income by providing loans to the people. The present study aims to identify the importance of Islamic micro-financing schemes among financial institutions. The study has also depicted the knowledge and attitudes of the respondents towards Shari'ah based financial products.

## **METHODS**

### **Study Design**

The present study has employed a mixed-methods approach, including the qualitative and quantitative designs, to identify the significance of Islamic micro-financing schemes among the financial institutions. The study has analyzed the attitudes, experiences, and opinions of the UK Muslims towards Shari'ah based financial products through semi-structured interviews and survey questionnaires based on the Likert scale.

### **Study Participants**

The study has recruited the UK based Muslims from different ethnicities. The researcher decided some key places to select the target sample, such as mosques, shops, and restaurants serving halal food, Muslim community organization, and the streets Muslims living in. Probability sampling, specifically judgmental and convenience sampling techniques, were used in this study to recruit respondents. The sample size selected for quantitative analysis was 255. For the qualitative analysis, 15 individuals were recruited from the sample of 255 individuals, who were customers of commercial banks, including the private Banks, Government Banks, and customers of Foreign Banks.

### **Data Collection**

The primary data was collected through the questionnaires, firstly the responses were included in the questionnaire and allowed the amendments in it. Then a random sample was selected and provided them with the amended questionnaires. However, the comments raised by the interviewees were notified, and the response from this group was again incorporated in the questionnaire, and this is how the final version was generated to collect the data.

For the qualitative analysis (thematic analysis), the data from the respondents was collected through semi-structured interviews that comprised of open-ended questions. The questionnaires were administered personally in commercial Banks (Private Banks, Government Banks, and Foreign Banks). The main aim of the questionnaire was to explore the perception of customers regarding the banking industry, product quality, service quality, attitude of staff towards the customer, pricing factor, and perception of customer regarding the Bankers. The questionnaire consisted of 10 different questions to examine the people's understanding and perception towards microfinance services.

### **Data Analysis**

The data gathered through the questionnaire was entered in the SPSS software for the final analysis and the statistical analysis of the data was carried out as descriptive statistical analysis based on percentages and frequencies (Asylgaraeva et al.: 2019, pp. 84-103).

The respondents recruited for qualitative analysis were requested to give their opinions regarding the efficiency of Islamic microfinance programs in UK, in terms of planning, outreach and operation, and impact on the economy. The responses obtained from the respondents drew a clear picture of what were the perceptions of respondents about a bank and what were the realities. Moreover, the responses have been evaluated by making themes and explaining the views of each respondent regarding product quality, service quality and pricing factor, attitude of staff towards customer, and perception of customer regarding bankers. A thematic analysis approach has been used to analyze the data collected from participants.

## RESULTS

### Quantitative Analysis

In the first step of conducting quantitative analysis, the study presented general characteristics of sample respondents, who participated in the survey. Table 1 has shown the demographic profile of the respondents.

**Table 1. Demographic Profile of the Respondents**

Measure	Items	Frequency	Percentage (%)
Gender	Male	134	53
	Female	121	47
Age	16 – 24 years	59	23
	25 – 34 years	56	22
	35 – 49 years	99	39
	50 – 64 years	34	14
	65+ years	6	2
Ethnicity	Somali	159	62.4
	Bangladeshi	37	14.5
	Pakistani	33	12.9
	Arab	20	7.8
	Other	6	2.4
Length of stay in the UK	Less than 5 years	52	20.4
	Between 5 – 20 years	159	62.4
	More than 20 years	44	17.3
Employment Status	Self-employed	31	12.2
	Employed	76	29.8
	Unemployed	129	50.6
	Retired	6	2.4
	Other	13	5.1

It is evident that the less affluent UK Muslims do not access the available Shari'a-compliant financial products to the extent that is expected. The knowledge and access to Shari'a-compliant finance based on their gender, ethnicity, length of stay in UK, and employment status has been presented in Table 2. Table 2 has shown that there were no significant differences between respondents' knowledge and access to Shari'a-compliant finance. However, there was exception in business where males seem to be enterprising as compared to their female counterparts. As far as ethnicity was concerned, there were no significant differences between respondents. Similarly, there were no significant differences between respondents depending on their length of stay in UK and employment status.

**Table 2. Knowledge of and Access to Shari'a-Compliant Finance Classified by Respondents' Gender, ethnicity, length of stay in UK, and employment status**

Measures		Heard about Islamic finance in UK?	Have Shari'a-compliant account?	Switched conv.mort to SCM*?	Are you in Business?	Did you seek SCBF*?
Gender	Male	82(61.2)	19(14.2)	3(18.8)	23(17.4)	4(18.2)
	Female	60(49.6)	15(12.4)	0(0.0)	4(3.3)	1(25.0)
	p-value	0.062	0.676	0.254	0.000	0.750
Ethnicity	Somali	86(54.1)	23(14.5)	0(0.0)	29(12.7)	5(26.3)

	Non-Somali	56(58.3)	11(11.5)	3(14.3)	7(7.3)	0(0.0)
	p-value	0.508	0.494	0.684	0.173	0.131
<b>Length of stay in the UK</b>	Less than 5 years	22(42.3)	7(13.5)	9(17.3)	3(5.9)	0(0.0)
	Between 5 – 20 years	93(58.5)	20(12.6)	2(25.0)	19(12)	4(21.1)
	More than 20 years	27(61.7)	7(15.9)	1(7.1)	5(11.4)	1(20)
	p-value	0.088	0.847	0.24	0.46	0.727
<b>Employment Status</b>	Self-employed	29(93.5)	4(12.9)	1(25.0)	24(77.4)	4(16.7)
	Employed	45(59.2)	10(13.2)	1(6.3)	2(2.7)	1(100)
	Unemployed	64(49.6)	18(14)	1(50.0)	0(0.0)	0(0.0)
	Other	4(21.1)	2(10.5)	3(16.3)	1(5.3)	5(19.2)
	p-value	0.000	0.981	0.180	0.000	0.103

Table 3 has presented the analysis of less affluent perceptions of UK Muslims regarding the Shari'a-compliant financial products.

**Table 3.** Respondent's Perception of Shari'a Compliant Finance on Offer in the UK

Statement	Percent of agreement (%)
Islamic mortgages are more expensive than their conventional counterparts	41
Availability of Shari'a-compliant finance will enhance UK Muslim's access to finance	77
A large number of UK Muslims are not accessing conventional finance due to their faith and would do so if they had a real alternative	82
Shari'a-compliant financial products on offer in the UK are not much different from their conventional counterparts	39
UK Muslims should switch their banking and home-financing to Shari'a-compliant finance even if they have to pay more	26
Majority of UK Muslims believe that providers of Shari'a-compliant finance in the UK are more aggressive and profiteering than their conventional counterparts	44
The Shari'a-compliant financial products on offer in the UK are selective and cater for the rich only	59

### Qualitative Analysis

In the second part, the results of the present study are based on the interview analysis given by the customers of commercial banks including the private Banks, Government Banks and customers of Foreign Banks. The respondents had poor prospects and potential markers having conventional banking mindsets. However, they need financial support and empowerment from the government and related institutions.

### Knowledge about Shari'a-compliant financial products

Table 4 has shown the common remarks, words, or statements stated by the respondents, when they were asked about the major issues and challenges faced in the implementation of Islamic micro-financing schemes among the financial institutions. Some of the interviewees stated that they had to face great challenges in the market, despite of increased proportion of Muslim communities. One of the respondents stated that;

'The communities having conventional banking mindset have a poor level of understanding regarding the Shari'ah terms'

The results based on the information provided by the interviewees have depicted that recently conventional and Shari'ah commercial banking are offering micro-financing. In this context, one of the respondents stated that;

'Offering micro-finance helps in the constitution of potential contributor as all the banks tend to offer same services within a similar marketplace'

Generally, majority of the respondents believed that micro-enterprises have potential prospects but they require financial support. They stated that their potential would not be neglected if the government and related financial institutions take real actions towards the empowerment of micro-enterprises. According to one of the respondents;

'Display of unconstructive characteristics to manage funds is a great challenge and some of the customers misuse the funds that they obtained from financing and other businesses'

**Table 4.** Remarks about major issues and problems faced by the customers

Theme 1: Major issues and challenges	Remarks/Frequently used terminologies
	Understanding of Islamic terms
	Risk and moral hazards
	Development planning
	Business related challenges
	Lack of funds
	Lack of trained staff
	Islamic micro-finance institutions

### Customer's Understanding of Islamic Terms

The responses obtained from the respondents regarding the understanding of Islamic terms depicted that more than half of the customers were not able to understand the Islamic terms that are used in the financing products. However, they themselves had claimed that they were made aware of the Islamic terms before signing the contract. One of the respondents stated that;

'Majority of the customers have lower understanding about Islamic terms because may be the officer have higher expectations in this matter'

The analysis has shown that some of the customers started to understand the Islamic terms after they had received detailed information; although, in the start they had difficulty in understanding Islamic terms. This clearly shows that customers need more education and information about the Islamic terms. In this context, one of the respondents narrated that;

'It becomes difficult to explain the Islamic terms to the customers when they do not care about the terms themselves and are not focused towards their understanding'

The customers find difficulty in understanding the Islamic terms as these terms are not used commonly in daily routine life. Some of the customers had come across those terms, when they first contacted the Islamic microfinance institutions. Table 5 has depicted the terms frequently used by the customers to show the difficulty they face in understanding the Islamic terms. One of the respondents stated that;

'I had developed understanding the terms of account that I hold myself but I believe that the new customers find difficulty in understanding'

**Table 5.** Remarks about difficulty faced by the customers in understanding Islamic terms

Theme 2: Customer's Understanding of Islamic Terms	Inadequate knowledge
	Detailed explanations of Islamic terms
	Signing contract
	Lack of attention
	Society norms
	Careless behavior

### Development of Authentic Products

The analysis has also explored the factors leading to the development of customers' businesses to come out with authentic products. In this aspect, market outreach is considered as an important factor in the development planning. Other factors include; increase of capital, improved skills, and sustainability. The local needs of the customers are fulfilled through the development of authentic products. In this aspect, one of the respondents stated that;

'I have considered to offer new products and I do that willingly. However, I also believe that banks need to have employees with assessment certificates to obtain authorization'

The routine bill payment has been considered among the authentic services in which the financial institution pays the whole amount to the bank and the customer repays the amount throughout the year. The general terms used by the respondents in explaining the business problems and authenticity of services have been depicted in table 6. One of the respondents reported that;

'I prefer and hope to provide mudharabah among the services provided, because I have thus far only offered murabahah'

**Table 6.** Remarks about business problems and authenticity of services by the customers

Theme 3: Authenticity of Services	Market outreach
	Routine monthly bill payment
	Home financing
	Offering murabahah
	Development planning

### DISCUSSION

The study has presented the knowledge, awareness, and understanding of UK Muslims about Islamic micro-financing schemes among the financial institutions. Financial illiteracy is among the major causes of the low demand for Islamic financial products because the access to Shari'a-compliant financial products requires some basic understanding of finance in general. There is also a need of appreciation of the distinguishing features of Shari'a-compliant financial products along with the underlying doctrine of Islamic economics. Majority of the UK financial institutions are interest-based. These institutions have perceived materialistic approach. Moreover, there is a huge expectation gap between what less affluent UK Muslims expect from the providers of Islamic financial products in the UK, and what is actually they are offered.

A similar study conducted by Roberts (2013) stated that the microfinance institutions charge higher effective rates by displaying stronger profit orientations as they operate at higher costs. These results were supported by another study conducted by Mohammed and Hasan (2008), as they revealed that while saving schemes, the microfinance institutions charged as high as 100% of their credit schemes from their clients. It has been shown that some of the institutions take extra funds for covering their operational costs that is presented in the form of re-investments, government assistance, or an international political community (Sandberg, 2012). However, the main aim of these institutions should be reduction of poverty, employment creation, empowerment, and development of successful businesses.

The present study has shown that the prospects and potential markers among the respondents were not satisfactory having conventional banking mindsets. Moreover, they need financial support and empowerment from the government and related institutions. A similar study conducted by Kempson, Atkinson and Pilley (2004) showed that majority of the building societies moved to retail banking through mergers and takeovers, when the traditional distinction between banks and building societies was removed by the re-regulation of financial services. This clearly shows that certain services have been enhanced by technological advancement and the level of accessibility; although, all the intense efforts and the significant progress made in this endeavour.

It is also evident that the Muslim community is financially excluded due to their religious beliefs; however, certain social groups choose to stay away from accessing the mainstream financial services. The study has presented the UK financial system, including Shari'a-compliant finance that caters the financial needs of less affluent UK Muslim communities. These communities represent a significant proportion of the overall UK population and the extent of their financial exclusion. A similar study conducted by Cole and Robinson (2003) showed that there is much variation in the level of financial exclusion among less affluent UK Muslim communities.

## **CONCLUSION**

The present study has helped in identifying the knowledge and attitudes of the respondents towards Shari'ah based financial products through quantitative and qualitative analysis. The results have clearly showed that the conventional UK financial system does not meet the financial services needs of less affluent UK Muslims. Due to lack of trust in the formal financial system, the less affluent UK Muslims tend to employ more informal financial services. The study results have concluded that in the current state the Shari'a-compliant financial products do not meet the financial services needs of middle-class UK Muslims. Moreover, it also lacks certain appropriate products that hinders their financial inclusiveness, enormously.

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