How Muslims Make a Decision Regarding Islamic Microfinance Options?

A Survey of Determinant Factors

Shaheen Mansori a, Meysam Safari b, Jing Huey Chin c,*

a,b,c Malaysia University of Science and Technology

ABSTRACT

This paper aims to examine the factors influencing the intention of Muslims towards microfinance application. Empirical studies have demonstrated that microfinance plays a key role in poverty alleviation and could improve under privileged Muslims’ living standards. However, microfinance faces some challenges as majority of Muslims yet to apply and thus, underutilise the benefits therein. The contribution of this paper is to explore the relationship between the identified factors and the level of intention towards microfinance application. To further support this viewpoint, theory of planned behaviour is used to justify and predict the intention in this research. The analysis demonstrated that religion and religiosity, perceived Shariah compliant and Imam’s endorsement have significant impact towards the level of intention in microfinance application.

ARTICLE INFO

Article History
Submitted 10 Apr 2018
Accepted 30 Jun 2018
Available online 17 Jul 2018

JEL Classification
M30

Keywords
Islamic Banking
Microfinance
theory of Planned Behaviour
Religion and Religiosity
Shariah Compliant
Imam’s Endorsement

*Corresponding Author:
victoria.chin44@gmail.com

Author(s) retain copyright of the submitted paper (Please view the Copyright Notice of JIFM).

This work is licensed under a Creative Commons Attribution 4.0 International License.
1. Introduction

In recent years, the Muslim population reached to around 1.8 billion which is almost a quarter of the total population on earth. Some statistics show that approximately one third of the Muslims globally were under poverty conditions (Economist, 2008). Additional to the rise of Muslim population, other factors such as global economy meltdown and global warming that leads to long-term drought in many Muslim countries further constricting Muslims’ lives and hence, worsen the situation.

In Islam, poverty is illustrated as a state where a person fails to fulfill any of the five basic criteria encompassing physical self, religion, intellect of knowledge, offspring and wealth (Hassan & Ashraf, 2010). Reflecting this, Islam considers poverty alleviation as a part of social justice and faith in Allah. Among many methods, contributing zakat for the will of Allah to purify a person’s wealth becomes the main source of Islam. Muslims who can afford to contribute zakat are obliged to do so as a form of worshiping Allah as well as wealth sharing with the less fortunate. Furthermore, Islam views and acknowledges that all Muslims’ possessions belong to Allah. Given that, Muslims should work together for the betterment of the Ummah (i.e. community or society).

Throughout the ensuing years, these underprivileged Muslims have yet to shackle from the poverty. To worsen the situation, global economic system failure and social upheaval have further undermined the balance and equitable development growth in Muslim countries. Subsequently, a holistic approach has been emerged in Islam which is, the combination of poverty alleviation initiatives with equitable wealth distribution mechanism to attain the desirable goal (Hassan, 2006).

Today, microfinance (microcredit) becomes an important financial instrument because financial sectors believe that it can alleviate the poor and improve their living standards (Comim, 2007; Dowla & Barua, 2006; Islam, 2007; Wright, 2000). Conversely, vigorous studies suppressed that Muslims do not fully utilise the benefits accrued from microfinance (Karim, Tarazi, & Reille, 2008). To further support this viewpoint, the Consultative Group to Assist the Poor (CGAP) revealed that approximately 20%-40% of the respondents among 19 Muslim countries agree that religious reason is the main proximal contributor to the underutilisation of microfinance. In addition, majority of the Muslims also conclude the conventional microfinance policies as a state of non-compliance to the Maqasid Al-Shariah.
(objectives of Islamic law). Consequently, Islamic finance institutions have interfered into this sector to assist the needs of lower income Muslim clients.

Against this backdrop, two core dynamic change elements for Muslim poverty alleviation are Islamic financial principles and microfinance. According to Islam’s belief, Islamic financial principles emphasize in both wealth and social equality and it is viewed as a state of compliance to Islamic law. On the other hand, microfinance is at the preliminary stage and the demand for microfinance is still insignificant among Muslim clients.

Microfinance scheme application can be influenced by three factors including religion and religiosity, perceived Shariah compliant and religious Imam’s endorsement. Thus, the purpose of this research is to identify the factors that influence the level of intention in microfinance application in compliance with the Islamic financial principles. Eventually, the findings of this study will provide insights regarding the microfinance enhancement methods for the stakeholders.

2. Literature Review

Prospective studies illustrated that microfinance underutilisation can be interpreted by the Theory of Planned Behaviour. It is a widely used theory in the behavioural prediction in various fields of study. Throughout this theory, Muslim’s level of intention in microfinance application can be more accurately predicted.

Theory of planned behaviour is the extension version of the theory of reasoned action. Further explaining, this theory places strong emphasis on a person’s intention in order to predict the suggested behaviour. Therefore, it proposes that if a person’s behaviour is motivated by the desired intention, this person will perform the intended behaviour (Ajzen & Fishbein, 1977). In the case of microfinance underutilisation, it is crucial to identify the factors that drive Muslims towards the intention in microfinance application.

Associated with the explanation above, the core constructs that contribute to the prediction of a behavioural intention are a person’s attitude towards the behaviour, subjective norm and perceived behavioural control. Given that, it is important to understand Muslims’ beliefs towards the microfinance, the motivations by the external parties and the control beliefs where these belief values will eventually influence the intention of microfinance application.

Attitude towards the intended behaviour (behavioural beliefs), the first construct states that a person will evaluate the outcome of an intended behaviour before actual behaviour is engaged. In microfinance, Muslims will intend to apply the scheme when they derive a favourable
attitude in doing so. Such cognitive evaluation comes from the behavioural beliefs where Muslims perceive their livings as a true Muslim.

Second core construct, subjective norm (normative beliefs) plays an influential determinant where the external parties motivate a person and transform his belief into an intended behaviour. Under the subjective norm’s influence, a Muslim highly depends on the approval from other Muslim individuals (friends, family members, Imams) or the Ummah (Muslims’ society) in applying microfinance. Evidently, this could be presumed that the other Muslims’ acknowledgment carries a strong weigh in contributing towards the level of intention in scheme application.

Perceived behavioural control (control beliefs), the third construct refers to a person’s perception on his/her own capability towards a desired behaviour. As such, when a Muslim feels that the microfinance could be easily applied with very least obstacles, he/she will perceive that he/she is able to carry out the intended behaviour to apply microfinance. Moreover, a Muslim’s control beliefs could be influenced by his/her past experience as well as through the observation of others in applying microfinance.

**Religion and Religiosity**

Religion is one of the major factors that shapes and influences an individual’s beliefs and subsequent behaviour. From the broader viewpoint, religion can be termed as a system of beliefs, specific guidelines and behaviour to be obliged to in the society (Belzen, 1999; Hirschman, Scott & Wells, 1998; Luna & Gupta, 2001; Mokhlis, 2006; Ronteltapa, van Trijpa, Renesb, & Frewer, 2007; Singh, 2006; Usunier & Lee, 2005). However, the impact of religion’s philosophy and thought can be vary from one individual to another due to the level of their adherence to the religion or the level of their religiosity (Mansori, 2012; Mansori, Sambasivan, & Md-Sidin, 2015).

In general, Muslims with higher intensity of religiosity may tend to have higher adherence towards microfinance scheme if they assume that the financial institutions follow Shariah principles. This can be further explained that, the higher the cognitive religiosity and affective religiosity of an individual, the higher tendency to engage into an intended behaviour in which, the individual beliefs that such performance is approved by the religion. Hence, to test the relationship between the intensity of religiosity towards the application of Islamic microfinance, the following hypothesis is conducted:
Hypothesis 1: There is a relationship between the intensity of religiosity on intention to apply for Islamic microfinance.

Perceived Shariah Compliant

Shariah-compliant financial services refer to the services that are compliant with Shariah law and the five main prohibitions. Given that, these prohibitions are Riba (prohibition of interest charged, revealed in Chapter 2, Verse 275, Qur’an), Gharar (uncertainty, for instance, ambiguous disclosure on the transactions), Maysir (prohibition of short-term investment, easily earned income such as gambling), profit and lastly, unethical investment (entertainment, alcohol or military weapons). Mindful of all above, Muslims view the money value as the exchange of an asset but not to earn money on the money (Mansori, Chin, & Safari, 2015). Therefore, in this effect, Shariah-compliant finance services are recognised as an important tool in the constant growth financial industry worldwide (Obaidullah & Khan, 2008).

As discussed earlier, theory of planned behaviour illustrates that an individual’s beliefs and attitude encourage or prevent him/her in engaging into an intended behaviour. Given that, if the individual perceives the importance of a specific event, highly likely, he/she will perform the intended action and vice versa. Reflecting this, the level of importance of Shariah law compliance highly influences Muslim’s decision in applying Islamic microfinance. Thus, to study the relationship between the level of importance of Shariah law compliance and the intention to Islamic microfinance, the below hypothesis is developed:

Hypothesis 2: There is a relationship between the level of importance of perceive Shariah law compliance on intention to apply for Islamic microfinance.

Religious Imam’s Endorsement

Several studies attempted to identify that Muslims tend to seek for advices from the Imam when they encounter questions regarding to the religious activities. Given that, Imam’s endorsement or conformation on the religion laws highly influences the decision making of a follower (Schiffman & Kanuk, 2009). With that being said, the interpretations on the religion law approvals, constraints or prohibitions by the Imam have great impact on the followers’ appraisals towards the acceptance of a new product or service (Mansori, 2012).

Downside of the above point, the intensity of the religious beliefs can be different among followers and subsequently, the reliance to seek for advice from Imam may vary as well. As a result, to study the level of reliance on Imam’s endorsement on intention to apply for Islamic microfinance, the below hypothesis has been developed:
Hypothesis 3: There is a relationship between the intensity of religiosity and the level of reliance on religious Imam’s endorsement on intention to apply for Islamic microfinance.

3. Methodology

The population of this study is Malaysian with low and average income from rural, suburban and urban area of Malaysia. For this purpose, 1100 self-administered questionnaires were distributed. Samples were selected based on non-probability convenience sampling from different locations such as night and day markets, transportation hubs and Islamic centers throughout all states in East and West Malaysia. The designed questionnaire for this study consists of two sections. The first section was designed to measure the religiosity level, perspectives on the importance of Shariah compliance and Imam’s endorsement towards an individual’s intention to apply for Islamic microfinance. The second part of questionnaire covers demographic information such as age, income and education level. The finalized questionnaire was translated to Malaysia national language, Bahasa Melayu by using back translation to make it more convenient for participants from rural areas and for those who does not have high proficiency level in English.

Results and Analysis

The demographic information of the respondents is exhibited in Table 1 above. Firstly, it is illustrated that more than half of the respondents’ education level are secondary school graduates (56.3%). Likewise, it is then followed by diploma graduates (13.8%). Reflecting this proposition, it is therefore presumed that the aggregate income will be lower than average. Evidently, around half of the respondents’ income fall within the range of 201- 400 USD (48.0%) and 27.2% of total respondents earn between 401 - 600 USD. Correspondingly, the age from 28 - 37 stands 38% whilst the second ranking goes to the age between 18 – 27 (36.9%).

Table 1
Demographic Information

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percent</th>
<th>Income</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>498</td>
<td>50.5</td>
<td>Below 200 USD</td>
<td>117</td>
<td>11.9</td>
</tr>
<tr>
<td>Female</td>
<td>488</td>
<td>49.5</td>
<td>201-400 USD</td>
<td>473</td>
<td>48.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>401-600 USD</td>
<td>268</td>
<td>27.2</td>
</tr>
<tr>
<td>Education</td>
<td></td>
<td></td>
<td>601-800USD</td>
<td>128</td>
<td>13.0</td>
</tr>
<tr>
<td>No Literacy</td>
<td>121</td>
<td>12.3</td>
<td>Age</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary School</td>
<td>119</td>
<td>12.1</td>
<td>18-27</td>
<td>364</td>
<td>36.9</td>
</tr>
<tr>
<td>Diploma</td>
<td>136</td>
<td>13.8</td>
<td>28-37</td>
<td>375</td>
<td>38.0</td>
</tr>
<tr>
<td>Degree</td>
<td>55</td>
<td>5.6</td>
<td>38-47</td>
<td>183</td>
<td>18.6</td>
</tr>
<tr>
<td>Total</td>
<td>986</td>
<td>100.0</td>
<td>Above 47</td>
<td>64</td>
<td>6.5</td>
</tr>
</tbody>
</table>
Table 2
Measurement Model

<table>
<thead>
<tr>
<th>Item</th>
<th>AVE</th>
<th>CR</th>
<th>Cronbach’s Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Religiosity</td>
<td>0.52</td>
<td>0.88</td>
<td>0.85</td>
</tr>
<tr>
<td>Perceived Shariah Compliant</td>
<td>0.69</td>
<td>0.90</td>
<td>0.85</td>
</tr>
<tr>
<td>Imam’s Endorsement</td>
<td>0.65</td>
<td>0.88</td>
<td>0.84</td>
</tr>
<tr>
<td>Intention</td>
<td>0.87</td>
<td>0.93</td>
<td>0.85</td>
</tr>
</tbody>
</table>

Average Variance Extracted (AVE)
Composite Reliability (CR)

To ascertain an acceptable validity and reliability level from the above (Table 2), the three main elements of Average Variance Extracted (AVE), Composite Reliability (CR) and Cronbach’s Alpha test act as the integral role in the entire determination process.

Based on Table 2, it is epitomized that all the constructs used have met the validity and reliability tests’ requirements. In essence, the data reviews that all the AVE is above 0.5 (0.52 to 0.69). Likewise, in this model, it presents good reliability, with the CR is more than 0.7 (0.88 to 0.90) and particularly, with the Cronbach’s Alpha values of 0.84 to 0.85. As the results, the developed measurement model shows that validity and reliability level is within acceptable range.

Table 3
Hypotheses Testing

<table>
<thead>
<tr>
<th></th>
<th>Beta Coefficient</th>
<th>Standard Deviation</th>
<th>Standard Error</th>
<th>T- Statistics</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Religiosity -&gt; Intention</td>
<td>0.1545</td>
<td>0.0630</td>
<td>0.0630</td>
<td>2.4540</td>
<td>0.0143</td>
</tr>
<tr>
<td>Perceived Shariah Compliant -&gt; Intention</td>
<td>0.3866</td>
<td>0.0671</td>
<td>0.0671</td>
<td>5.7346</td>
<td>0.0000</td>
</tr>
<tr>
<td>Imam’s Endorsement -&gt; Intention</td>
<td>0.1595</td>
<td>0.0605</td>
<td>0.0605</td>
<td>2.5949</td>
<td>0.0096</td>
</tr>
</tbody>
</table>

R-Square= 0.361/36.1%

With regard to the above, the proposed hypotheses testing (Table 3) concludes that the relationship is significant as the p-value is not more than 0.05 (0.01; 0.00 and 0.01 respectively) and thus, the model is fit. For clarity, the results shown in Table 3 perform that H1 (p-value= 0.0143; β= 0.1545), H2 (p-value= 0.0000; β= 0.3866) and H3 (p-value= 0.0096; β= 0.1595) are supported with the p-values of lesser than 0.05. Given that, the findings demonstrate a positive and significant relationship towards the level of intention of Islamic microfinance application. In short, the hypotheses express that Shariah law compliance by the financial institutions exhibits the highest influence towards the Islamic microfinance application. For
better viewpoint, this statement can be evident with H2, $\beta= 0.3866$ explaining that the increase of one unit of Shariah compliant can increase approximately 0.4 units of the intention in applying Islamic microfinance scheme. Accordingly, it is followed by the Imam’s endorsement and individual’s religiosity.

Lastly, the $R$-square demonstrates 36.1% variance of the intention in applying Islamic microfinance, which can be explained by three constructs: religiosity, perceived Shariah compliant and Imam’s endorsement. Undoubtedly, the proposed hypotheses testing articulate its high accuracy in predicting the overall level of intention in applying Islamic microfinance scheme.

4. Findings and Discussion

The quantitative survey was developed and used to investigate the influence of religiosity, perceived Shariah-compliant and Imam’s endorsement towards the intention of Islamic microfinance application. Consequently, the result reflects that all the constructs have positive and direct impact on the application intention, particularly with the compliance of Shariah law by the financial institutions.

Based on the findings, perceived Shariah compliant has the highest effect on the intention of Islamic microfinance application. Next, Imam’s endorsement stands the second ranking and it is then followed by religiosity. Accordingly, it is revealed that respondents highly agree the significant influence of Shariah compliant and Imam’s endorsement towards their intention of scheme application. Therefore, to motivate under privileged Muslims to cross the poverty line, some action plans should be urged. Given an example, financial institutions should progressively demonstrate to the Muslims that they have been fully extended and served as Islamic microfinancing institutions.

It is therefore of utmost interest to consider the stable establishment of Islamic microfinance could alleviate the poor and ameliorate lower income individuals’ living standards. With the increase of microfinance application, it leads the way to job creation because Islamic microfinance provides the chance to the poor who are excluded from the financial institutions to set up and engage into the businesses directly.

Furthermore, Islamic microfinance demonstrates direct reflection in enhancing the health conditions among applicants as well. Rigorous studies further expressed that better health status aligns with better income group members. Similarly, the under privileged community would be able to increase their business skills and experiences through the opportunity given
by microfinance such as participating in the business events or economic activities. Ultimately, destitute Muslims would be financially capable to provide their children for higher education institutions.

In the same vein, the Islamic microfinance characteristics should be strengthened by encouraging more Muslims to apply the scheme in order to increase the overall sustainability of the community. By adhering this, Islamic microfinance would shift gradually, and eventually become parallel with the aim of the government, which is to alleviate poverty.

Considering of all above, financial sector will be able to gain better insights and marketing strategies towards their targeted group and contribute to the growth of the Islamic microfinance scheme.

5. Limitations for further research

The research is conducted to explore the level of influence of religiosity, perceived Shariah compliant and Imam’s endorsement towards the Islamic microfinance intention. Nonetheless, due to the usage of non-probability convenience sampling approach, a limitation of sample size is occurred. The relationships between the variables will be affected due to the small sample size. In order to attain a higher accuracy representative distribution of the population, a bigger sample size should be considered in the future. Thus, this finding should be generalized after considering the limitation above. On the other hand, another limitation is that quantitative approach is applied in this research. The statistic reports are interpreted in numeric form and this might confuse the future researchers in acquiring the data in detail. Therefore, to achieve this turnaround, it is suggested that both quantitative and qualitative approach (interview and focus group) should be used in the future research for deeper understanding of the intention to apply Islamic microfinance.

Reference:


