

## **Empirical Validations of Customer's Determinants and Acceptance of Islamic Micro Finance in Kano and Jigawa States, Nigeria**

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### **Abstract**

*The aim of this research paper is to conceptualize the model in examining accessibility to fund, attitude, and knowledge as the selected determinants of customers' acceptance towards Islamic micro finance in Kano and Jigawa States, Nigeria. This study used simple random sampling technique and obtained data from 200 Islamic micro finance customers in Kano and Jigawa States. The study tests the reliability of the study measurement and explores the potential framework as a pilot study. The study found the measurements to be valid and reliable as the potential framework is conceptualized. Recommendations indicated that financiers and the general public can consider the variables and the measurements of this study to serve as a guide for Islamic micro finance towards customer's acceptance of their products. Also, agencies such as stock exchange commission, the Central Bank of Nigeria as well as other financial institutions can utilize the outcome of this study in making policies and strategies.*

**Keywords:** Acceptance, Attitude, Knowledge, Customer's, Islamic Micro Finance

**JEL Classification:** G21

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### **1. Introduction**

Microfinance has been getting wide consideration in the past few years since this mechanism is observed as one of the most significant sources in changing people's lifestyle especially the poor (United Nations World Summit Outcome Documents, 2005). This is obvious as the General Assembly of United Nations has announced the year of 2005 as the Year of Microcredit (Mahjabeen, 2008). Micro-Finance (MF) institutions refer to the organization that aimed at providing small loans to groups or individuals that are, low-income earners or neglected and cannot approach conventional banks due to lack of collaterals (Mahmood, 2019). Equally, it is viewed as inventions in micro finance appeal ethical thought in streak with the

dictates of Islam in doing business. The financial services are projected to help the poor who is living in less than five American dollars (\$5) and also offer small financial credit to the less privilege for meeting his/her need and necessity, investment needs, personal disaster, and emergencies (Rahman, 1999). It added greater visibility and attracted the interest of academic, practitioners and investors mostly in developing countries such as the most populated country in Africa called Nigeria (Usman & Tasmin, 2016; Afonso & Khan, 2019).

Nigeria is one of the West Africa countries among five (5) African continents that included West Africa, North Africa, Middle, East and South Africa (Masih, Maskey, Mussá & Trambauer, 2014). With higher number of countries that composed sixteen out of the number of fifty in the African Continent (Abdullahi, 2013; Mohammed, Aziz & Ogunbado, 2017). Nigeria being one of the most populated countries in the World that is the tenth (10<sup>th</sup>) populated nation globally with population of 202, 092,253 million people including male and female, higher than fifty (50%) belong to Islamic religion yet Islamic bank is at developing stage (Abdullahi, Ochi & Gwaram, 2013).

Furthermore, the two states (Kano and Jigawa) have larger number of population that are mostly Muslims and with higher number of poverty that need financial intervention. However, Islamic micro finance did not need interest rate as conventional micro finance do, due to prohibition of *riba* (application of interest) as revealed by the verse in the Holy Qur'an discussed (Khan, 2013). Due to that, the less privileged Muslim of the two states of the study area has the intervention of the non interest source of financing their day-day socio-economic activities and reduction of poverty. This is in line with the study of Obaidullah and Khan (2008) that described Islamic micro finance as an extreme poverty easing techniques that introduce provision of financial services to less privilege, poor people of low income as well as low economic standing that are omitted from financial system on formal bases. It is also measured as some energetic techniques for easing poverty as the system has factors that determine customer's acceptance of Islamic micro finance as dependent variable by consideration of the independent variables that includes; Accessibility to fund, Attitude and Knowledge in relation to customers which problem statement would explain further.

The understanding of Accessibility to fund, Attitude and Knowledge in relation to acceptance of Islamic micro finance remains a means for answering numerous of the challenges associated with unemployment, creation of wealth, poverty reduction, and social evils such as kidnappings, and political thugs among others. This is in line with the studies of Durotoye (2014); Egboro (2015) and Oduwale (2015) chosen that these variables are essential in both Islamic and conventional Nigerian micro financial institutions in order to resolve issues of social vices mentioned above through growing source income generation, jobs creation, and Family well-being and build assets. Thereby, this study contributes the inclusion of Accessibility to fund, Attitude and Knowledge variables as determinants on acceptance of Islamic micro finance in the two neighbor States (Kano and Jigawa) towards socio-economic growths and development of the states and Nigeria in general.

The study intend to explain the concept of Accessibility to Fund, Attitude, Knowledge and customers' acceptance of Islamic MF as well as test the selected variables validity, reliability and proposed framework.

## **2. Literature Review**

Kamal Uddin et al. (2015) examined social collateral model for Islamic micro finance and qualitative approach was used on officers and academic of micro finance institutions. The study used focus group discussions and interviews and the result shows that group pressure, culture, social capital and entrepreneurship skill are machineries of social collateral model for Islamic MF. Mahmood (2019) analyzed impact of Islamic MF on borrowers' income in Pakistan and the study used primary data with qualitative analysis, findings shows that there was a reasonable increase in the income and consumptions of the borrowers. Outcome also indicated that there is 18% average increase in the rural borrowers' income and average increase of 23% in urban borrowers' income.

Fan *et al.* (2019) examined on their study that Islamic MFIs compared to conventional have less credit risk, but less financially sustainable and profitable, less likely to mission drift and have better poverty outreach. Putri, Fithria and Kasri (2019) evaluated factors moving customer intention to seek Islamic MF in Indonesia. Researchers used sample of 160 customers from four (4) branches of the two (2) Islamic MFIs. Partial least square modelling was used and measured the effects of 5 construct (perceived behavioral control, attitude, subjective norms, religiosity & pricing). Result of their analysis shows that all the four (4) constructs have positive influence on intention to seek Islamic MF and price revealed a negative influence.

Hadisumarto and Isma'il (2010) examined the effectiveness of Islamic micro financing, and the result indicates that incentive system, construct good relationship and business control is effective in improving household income and developing micro-enterprises. Rashida and Ejaz (2019) analyzed Interest Free Micro Credit Loans (IFMCLs) in respect to female entrepreneurs of Pakistan. Researchers used both secondary and primary data where interviews and observation over an extended time frame was conducted based on qualitative research design. Data was analyzed based on organized themes and sub-themes and reviewed emerging patterns. Result revealed that IFMCLs played an important role in bringing positive transformation in the lives of borrowers. Customers narrated that flexible repayment schedule and zero interest rate are the back born of collecting loans from this source.

Shinkafi, Yahaya and Sani (2019) evaluate financial inclusion in Islamic finance, the study used qualitative method (library approach) where relevant and existing document, and the result revealed that the following factors served as imperative drives for realizing financial inclusion for rural poor, women and low income earners, these factors are legal and regulatory commitment of policy makers and regulators; robust technology; extensive public awareness of financial products and services; micro finance/credit services; financial literacy and proficiency, and lastly financial infrastructure. Iswanaji (2019) examined analysis of Accounting

Information System (AIS) using hotfit model method in Islamic MFIs of Indonesia. Research method adopted in their study was descriptive quantitative using 100 samples of accountants. Data was analyzed by SPSS 21.0 software for windows. Outcomes indicated that mobile banking is the proper instrument to enhance the quality of reporting and make accessible the services of Islamic MF to the poor in the Indonesian remote areas, the practice of using AIS in Islamic MFIs was already good; lastly, general application of AIS at Islamic MFIs of Indonesia has positive effect on enhancing the services of Islamic MFIs both in organizational accounting and individual.

Erol and El-Bdour (1989) analyzed attitudes, patronage factors and behavior of bank customers to Islamic bank. Data was collected for their study through self-administered questionnaire from cross section of middle income households, middle class, business man, lawyers and doctors. Data received were analyzed using both multivariate and univariate statistical techniques and results showed that individual effort and interpersonal contact played a significant role in the area of attracting individual to use banking services presented by Islamic bank. Also, religious motivation did not appear to be the mainstandard for selecting of Islamic banking services.

Amin, Abdul Rahman and AbdulRazak (2014) examined consumer acceptance of Islamic Home Financing (IHF). The baseline of their study is theory of planned behavior (TPB), they distributed and collected 300 questionnaires and used 278 usable one. Data were analyzed by using ordered probit model and results indicated that perceived control, attitude, Islam city of products and subjective norm are contributory in determining consumer acceptance of IHF products. For demography items, it revealed that religion, marital status, occupation and ethnic are influential, while academic qualification, monthly income and gender have little effects on the consumer acceptance. Abu-Hussin et al. (2017) determined Halal purchase intention between Muslim minorities of Singapore. Using Ajzen theory of planned behavior (TPB), the study used quantitative survey and obtained 332 observations from Muslim consumers. Data generated was analyzed and explored using regression analysis and results revealed that all TPB constructs (variables) have a significant positive effect on the intention to purchase halal certified products between Muslim minorities in Singapore.

El Ebrashi *et al.* (2017) examined what potentials does Islamic Micro Credit (IMC) have? The study used 1,125 consumers of Micro Credit (MC) in Upper Egypt and Cairo by multi stage cluster of sampling technique. Outcomes indicate the potential of Musharka mode of financing between MC borrowers in Egypt, especially in the manufacturing sector, followed by trade sector. Hoque and Awang (2019) analyzed that gender differences played moderating role in the association among entrepreneurial marketing and SMEs in Bangladesh performance. Their study used self-administered questionnaires and collected data from 220 owners of SMEs and analyzed using structural equation model (SEM). Findings revealed that there is significant and direct influence of entrepreneurial marketing on firm performance.

Sudigdo, Khalifa and Abuelhassan (2019) studied driving Islamic attributes, destination image to predict tourists and destination security guarantee. Data was collected from 200 respondents through administered questionnaire in Jakarta; data were analyzed by SEM-AMOS technique. Results indicated that there is significant impact of Islamic attribute of destination with tourist destination as mediator. AlMamum, Fazal and Muniady (2019) analyzed entrepreneur knowledge, competence skills and performance. The study used cross sectional design and collected data via structured interviews from 403 micro-entrepreneurs, and finding shows that networking entrepreneurial, skill and market orientation have a positive influence on entrepreneurial competence. Then, entrepreneurial skills, networking and entrepreneurial competence have positive influence on enterprises performance. There is a significance mediation influence of entrepreneurial competence on the association among entrepreneurial skills, networking and market orientation and enterprise performance.

#### Research Framework

The figure below represents the framework that will explain the module of this study. It also defines the relationship between acceptances of Islamic micro finance, accessibility to fund, attitude and knowledge served relationship among the variables. The study is in line with Theory of Human Behavior (THB) that explains the customer behavior on products. The human behavior theory has also selected and interrelate with one another and as well their surrounding through lively and variable business of Islamic MF. Figure 2.1 below offer description of the idea

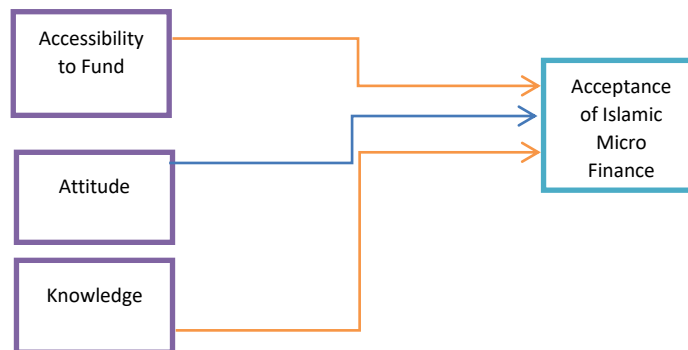


Figure 1: Conceptual Framework

Theoretical framework above clarifies the existence of direct relationship between accessibility to fund, attitude and knowledge as independent variables and acceptance of Islamic MF as the dependent variable. The construction demonstrates that accessibility to fund, attitude and knowledge could be the predictors of acceptance of Islamic micro finance based on the related works such as (Hulme et al. 2012; Kleijnen, Ruyter & Wetzels, 2007; Nagy, Carlisle & Goodwin, 2014) and Theory of human behavior (THB) is the underpinning theory of this study.

**3. Methodology**

Kano and Jigawa States are two of seventh North Western State of Nigeria in which Kano were ranked the first out of 36 state of Nigeria in term of population and among the top in Agriculture, Trade and Industry with total coverage area of 20,131 kilometer square (KM<sup>2</sup>) and equal to 7,773 square meter (SQ M) and population of 9,401, 288 people. Whereas, Jigawa State has cover 23,158 kilometer square (KM<sup>2</sup>) equivalent to 8,940 square meter (SQ M) as well the state ranked 8<sup>th</sup> of 36 State of Nigeria with 4,361,002 estimated population conducted in 1996 (2006, Census; (Mohammed, Adamu, Sunusi&Damamusau, 2020).

This research applied quantitative research method to access the connectionbetween accessibility to fund, attitude, knowledge and acceptance of Islamic micro finance. The researcher collected the data from customers of small and medium enterprises such as block industries, poultry farmers, groundnut oil makers, tailoring services and many others. The research analyzed the data collected through the usage of SPSS and partial least square structural equation modelling (PLS-SEM). Likewise,confirmed the reliability frame from studying the literature as proposed (Hair et al., 2014). Therefore, the target population of this study is 1,808 small and medium enterprises (SMEDAN, 2012) in Kano and JigawaStates, in Nigeria.

**4. Result**

*Reliability analysis*

Reliability is defined as the score in which the items that make the scale come together to display that all items are evaluating the same underlying variable. It also displays the level in which is free from random error. The reliability scales are test and retest which is also mentioned as temporal consistency and internal stability. Though, as haggard by George (2003) mentioned that value for Cronbach’s alpha is 0.60. Cronbach’s coefficient is finest frequently used in SPSS. It gives a proposal of an average correlation among individual and every item that institute the scale. Value going from 0 to 1 having better value displays better reliability and result better than 0.70 displays the worthy validity and reliability of measures. The underneath table 1 pronounces the value of Cronbach’s alpha of the entirevariable going from 0.9 and composite reliability of 0.9 and above which is near to one meaning the scale used measured is highly reliable for this study.

Table1: Realibility Test

	Items	Cronbach’s Alpha	Composite Reliability	Average Variance Extracted (AVE)
ACC of IMF	22	0.96	0.96	0.52
Accessibility to Fund	11	0.91	0.93	0.51
Attitude	22	0.83	0.87	0.50
Knowledge	22	0.95	0.96	0.56

*Source: Authors’ Computation*

From the table above, all the studyconstructs have satisfactory Cronbach’s alpha. Acceptance of Islamic MF (ACC of IMF) has value of Cronbach’s alpha of 0.96

and Composite Reliability of 0.96. And Accessibility to fund Cronbach's alpha value was 0.91 and Composite Reliability of 0.93. Knowledge has Cronbach's alpha of 0.95 and Composite Reliability of 0.96, on the other side Attitude variable has Cronbach's alpha value of 0.83 and Composite Reliability of 0.87. Furthermore, all variables have satisfactory average variance extract of more than 0.4.

#### *Findings*

This outcome of this study revealed by the literature indicated the significant validity between accessibility to fund, attitude, knowledge, and acceptance of Islamic micro finance. Further pilot test of the reliability and validity of the variables revealed the standardization of the study dependent and independent variables, likewise the study framework.

#### **5. Conclusion and Recommendation**

The conclusions of this research reported that Acceptance of Islamic MF has value of Cronbach's alpha of 0.96 and Composite Reliability of 0.96; Accessibility to fund 0.91 and 0.93; Knowledge has 0.95 and 0.96; Attitude has 0.83 and 0.87 respectively. Therefore, this study indicated that the positive relationship between the study variables and framework would boost the financial institutions, corporate bodies and Stakeholders. Furthermore, both local and foreign shareholders would gain from the research by seeing the most fitting factor that could make customers accept the Islamic MF.

The study suggested that shareholder or investors can consider this research to help as direction before they could capitalize their savings on IMF so that they minimize risk and maximize their returns. Policy makers such as Central Bank of Nigeria (CBN), government as well as security and exchange commission (SEC), can use the results to make clear economic policies on financial sectors derived from the research.

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