

T.R.
ISTANBUL SABAHATTIN ZAIM UNIVERSITY
GRADUATE EDUCATION INSTITUTE
DEPARTMENT OF ISLAMIC ECONOMICS AND FINANCE

**PROMOTING FINANCIAL INCLUSION THROUGH
ISLAMIC MICROFINANCE IN ETHIOPIA**

PH.D. DISSERTATION

Adem Aman SHIBU

Istanbul

January-2024

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Supervisor

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January-2024

THESIS APPROVAL

This study has been approved in partial fulfillment of the requirements for a Ph.D.
Degree in Islamic Economics and Finance

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DECLARATION OF SCIENTIFIC ETHICS AND ORIGINALITY

This is to certify that this thesis/Ph.D. dissertation titled “**Promoting Financial Inclusion Through Islamic Microfinance in Ethiopia**” is my own work and I have acted according to scientific ethics and academic rules while producing it. I have collected and used all information and data according to scientific ethics and guidelines on thesis writing at Istanbul Sabahattin Zaim University. I have fully referenced, in both the text and bibliography, all direct and indirect quotations and all sources I have used in this work.

Adem Aman SHIBU

January-2024

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Adem Aman SHIBU

ABSTRACT

PROMOTING FINANCIAL INCLUSION THROUGH ISLAMIC MICROFINANCE IN ETHIOPIA

Adem Aman SHIBU

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Supervisor: Assoc. Prof. Dr. Burhan ULUYOL

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This study aimed to investigate the factors that influence financial inclusion and promote Islamic microfinance services adoption. The research underlined in the light of the Theory of Planned Behavior and financial literacy to develop a better understanding of financial inclusion in the aspect of financial awareness, financial knowledge, financial uncertainty, financial behavior change, and income levels. Structural equation modeling (SEM) methods were utilized to test the goodness of the model using a valid dataset collected from 2202 survey participants using SPSS Amos version 22 software. In this research, it was found that financial attitude is affected by financial awareness, uncertainty, knowledge, behavioral change, and income level. Conversely, financial inclusion was determined according to financial knowledge, financial behavior change, and income. In addition, as a result of this study, the relationship between financial awareness and financial uncertainty associated with financial inclusion is positive and negative respectively, and does not support the promotion of financial inclusion to adopt Islamic microfinance services due to limited factors. Nevertheless, Financial inclusion is vital for practitioners and beneficiaries of Islamic microfinance and the Islamic financial system to transform their financial strategies. Therefore, IFIs including Islamic microfinance practitioners should focus on building financial literacy in the aspect of financial inclusion to develop effective financial attitudes for the benefit of IFS products and services.

Keywords: Financial inclusion, Islamic Microfinance, Islamic Crowdfunding, Integrated Islamic-Crowdfunding-Cash-Waqf Model, Islamic Microfinance in Ethiopia, Islamic Banking in Ethiopia

ÖZET

İSLAMİ MİKROFİNANS YOLUYLA FİNANSAL KAPSAYICILIĞI TEŞVİK: ETİYOPYA ÖRNEĞİ

Adem Aman SHIBU

Doktora Tez, İslam İktisadı ve Finansı Anabilim Dalı

Danışman: Doç. Dr. Burhan ULUYOL

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Bu çalışma, finansal kapsayıcılığı etkileyen ve İslami mikrofinans hizmetlerini teşvik eden faktörleri araştırmayı amaçlamıştır. Araştırmada, finansal kapsayıcılık, finansal farkındalık, bilgi, belirsizlik, finansal davranış değişikliği ve gelir düzeyine ilişkin daha iyi bir anlayış geliştirmek için Planlı Davranış Teorisi'nden yararlanıldı. 2202 anket katılımcısından toplanan geçerli bir veri kümesi SPSS Amos 22 sürüm yazılımı kullanılarak modelin iyiliğini test etmek için yapısal eşitlik modelleme (SEM) yöntemlerinden faydalanıldı. Bu araştırmada finansal tutumun, finansal açıdan farkındalık, belirsizlik, bilgi, davranış değişikliği ve gelir düzeyinden etkilendiği bulunmuştur. Finansal kapsayıcılığı ise finansal bilgi, finansal davranış değişikliği ve gelire göre belirlenmiştir. Ancak bu çalışma sonucunda, finansal farkındalık ve finansal belirsizlik ile finansal kapsayıcılık arasındaki pozitif/negatif ilişkinin, İslami mikrofinans hizmetlerini benimsemek için finansal katılımın teşvik edilmesi konusunda sınırlı faktörlerden dolayı desteklemediği anlaşılmıştır. Sonuç olarak, finansal kapsayıcılık, İslami mikrofinans ve İslami finansal sisteminin uygulayıcıları ve yararlanıcılarının finansal stratejilerini dönüştürmeleri için hayati öneme sahiptir. Bu nedenle İslami mikrofinans uygulayıcıları, İslami finansal hizmetlerinin yararına etkili finansal tutumlar geliştirmek için finansal farkındalık, finansal bilgi, finansal davranış değişikliği ve finansal kapsayıcılık oluşturmaya odaklanmalıdır.

Anahtar Kelimeler: Finansal Kapsayıcılık, İslami Mikrofinans, İslami Kitle Fonlaması, Entegre İslami Kitle Fonlaması-Nakit Yardım Vakıf Modeli, Etiyopya'da İslami Mikrofinans, Etiyopya'da İslami Bankacılık

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ABBREVIATIONS

AAOIFI – Accounting and Auditing Organization for Islamic Financial Institutions

AEMFI – Association of Ethiopia Microfinance Institutions

ATM – Automated Teller Machine

CB - Conventional Bank

CBE - Commercial Bank of Ethiopia

CMIN - Chi-square

CW - Cash Waqf

CF – Crowdfunding

CFA – Confirmatory Factor Analysis

CFA-SEM - Confirmatory Factor Analysis & Structural Equation Modeling

CFCWM – Crowdfunding Cash Waqf Model

CSA – Ethiopia Central Statistical Agency

DMI - Dire Micro Finance Institution S.C

DV – Dependent Variable

HMFI - Harar Microfinance Institution

IB - Islamic bank

IBM – International Business Machines Corporation

ICFCWM - Integrated-Crowdfunding-Cash-Waqf Model

ICT – Information and Computer Technology

IFC – Islamic Crowdfunding

IFIs - Islamic Financial Institutions

IFS – Islamic Financial Services

IGAD - Intergovernmental Authority for Development

IsMF - Islamic Microfinance

ISF - Islamic Social Finance

IV – Independent Variables

FDRE – Federal Democratic Republic of Ethiopia

FI – Financial Inclusion

FL – Financial Literacy

GCC – The Gulf Cooperation Council

GDP – Growth Domestic Product

GTP -I – Growth and Transformational Plan -I

GTP -II - Growth and Transformational Plan -II

LDCs – Least Developed Countries

MENA – Middle East/North Africa

MFIs – Micro Financial Institutions

MPI - Multidimensional Poverty Index

NBE – National Bank of Ethiopia

NBFIs - Non-Bank Financial Institutions

NPLs – Non-Performing Loans

OCSSCO – Oromoia Credit and Saving S.C.

OECD - The Organisation for Economic Co-operation and Development

OIC – Organization of Islamic Cooperation

PMSBY - Pradhan Mantri Suraksha Bima Yojana

PLS – Profit and Loss Sharing

RMFI - Rays Microfinance Institution

ROSCA – Rotating Saving and Credit System Association

SDG – Sustainable Development Goal

SEM – Structural Equation Modeling

SMEs - Small and Medium Enterprises

SSA – Sub-Sahara African Countries

SPSS – Statistical Package for the Social Science

SMFI - Somali Microfinance Institution

TPB – Theory of Planned Behavior

UAE – United Arab Emirates

UK – The United Kingdom

USA – The United States of America

ZI - Zakat Institution



CHAPTER I

INTRODUCTION

Ethiopia is a country of never been colonized by external forces like other African nations in history. History revealed that, due to the reason that, the Ethiopian nation was not let in and got victory over Italy, which attempted to occupy in 1896. With all due respect, unfortunately, Ethiopia's government throughout different regimes has not succeeded in fighting to alleviate poverty. In the contemporary aspect, it is one of the most crowded populous nations, which is estimated to be 120 million in Africa, next to Nigeria. And, Ethiopia is one of the nations, “Where vast of the destitute societies or the penniless to provide for themselves people live”, around the globe.

According to the global multidimensional poverty index (MPI) report in 2022 Ethiopia's MPI value score is 0.367. This report revealed that 4.1 million poor people live around the globe with all 10 MPI indicators deprived in 111 emerging countries. On the other side, 3.8 million of these people are habitant in Sub-Sahara Africa, Ethiopia is besides ranked third countries by habitant 615,000 people in the region after Nigeria and Niger with a score of 910,000 and 685,000 respectively (i.e., the deprived score is 100 percent means poorest of poorest) with entire 10 MPI indicator. In the same report, Ethiopia's scores in the various MPI value *inter alia* entirely dimensions of poverty indicators scores; in nutrition scored 12.2%, child mortality scored 1.8%, drinking clean water scored 7.1%, and assets scored 8.3%, among others. Furthermore, reducing poverty is an area of the SDG agenda, which is concerned in the first place is one of the Ethiopia regime's headaches throughout socioeconomic history that has not been solved yet.

Briefly, so far, relying on the poverty indicators outcomes as well as the deprivation score, Ethiopia has been leading East Africa with the highest MPI value in the entire dimension with poor and perform under in health, education, and standard of living conditions set in nutrition, child mortality, lack of drinking clean water, and electricity among other 10 MPI indicators measures. On the other side, the overall financial

performance including mainstream and newly emerged Islamic finance and banking is far from global trends and settled standards as well.

Historically, the pioneer IFIs operation commence services using a profit/Loss sharing model and avoiding interest-based services first operated by Tabung Haji in Malaysia in 1962 and Mit Ghamr saving-based investment banks in Egypt in 1963 respectively. The Karachi Interest Bank in Pakistan followed later. Surprisingly, studies revealed that the first Shari'ah-compliant saving, investment fund, and takaful operation services were established in Africa.¹ Unfortunately, Mit Ghamr has had been didn't provide service for more than three and half years, whereas only Tabung Haji serves and its operation continues nowadays (Shibu & Chachi, 2021; Siddiqi, 2006). The overall Islamic financial institutions (IFIs) development history reveals that the practice of IFIs in its contemporary context has not exceeded more than fifty years (half a century). Islamic financing, which has operated for the last few decades or half of a century, is still in the infancy stage when it is compared to its counterpart (Siddiqi, 2006). In addition, some scholars suggested that its theory is also not well-equipped, and on the other side, it is highly dependent on a few asset-based debt-creating instruments associated with financial intermediation (Oumer, 2021; Siddiqi, 2006).

So far the emergence of interest-free services enhances financial inclusion by promoting entrepreneurship, SMEs, and Islamic financing systems (IFS). Entrepreneurship is a kind of business to “Do something”, by taking a risk, while entrepreneurs are risk-takers, innovators (Howard et al., 2016, p. 10; Joshua Yindenaba Abor, 2017, p. 3), and individuals who is focused on the fortunate rather than on funds (Sohail & Arshed, 2022). This means entrepreneurship business transactions including Islamic microfinance services have been encouraged for sustainable finance and a sound catalyst for business activities transformation (Howard et al., 2016, pp. 10–11). The microfinance sector has a reliable engine for job creation, sustained economic development, and growth in the world. It played a significant role by boosting

¹ Muhammad Al Bashir Muhammad Al Amine, *Islamic Finance and Africa's Economic Resurgence: Promoting Diverse and Localized Investment* (Busaiteen-Muharraq, Bahrain: Palgrave Macmillan, 2016), 1.

competition, initiating innovative ideas, developing human capital, and designing a financial system. Mainly micro-enterprises are a crucial economic contribution to the financial sector and are recognized for their role in sustainable global development. It is argued that SMEs contribute 95 percent of firms, 50 percent of GDP, and on average 65 percent of entire employment in formal and informal sectors globally. Therefore, small-scale businesses like the microfinance sector can play a key role in enhancing economic prosperity by creating income, absorbing labor, and eliminating poverty in developing countries. SMEs have been a phenomenal and dominating discussion caption as well as an agenda for academicians, practitioners, and policymakers among others in the whole world, which is developed and emerging countries, for economic development.

This study focuses on making a valuable contribution to the existing literature in several ways. Firstly, it explores the current state of financial inclusion in Ethiopia and its relationship with Islamic microfinance services, intending to increase financial development and economic empowerment. Secondly, it is the pioneer study to use the Theory of Planned Behavior (TPB) in conjunction with financial inclusion and IsMFs in the East Africa region, employing a mixed methodology that includes semi-structured interviews and case studies supported by snowballing techniques. Thirdly, the study highlights the crucial integration of the Islamic crowdfunding-cash-waqf model, which is an important contribution. To sum up, the research gathered information from IFIs, NGO professionals, and IsMF practitioners, as well as potential users, to understand their understanding and familiarity with IFIs. Furthermore, the study fills a gap in the existing literature by investigating the advancement of financial inclusion and Islamic financing in terms of financial literacy, both locally and globally. Its focus is on utilizing IsMF services for alleviating poverty, through the lens of the TPB approach.

The findings of this study indicate that financial attitude is influenced by various factors including financial awareness, financial uncertainty, financial knowledge, financial behavior, and income level. Additionally, financial inclusion is determined by financial knowledge, financial behavior, and income. However, the study did not find a positive relationship between financial awareness and financial uncertainty promoting financial inclusion for adopting IsMF services due to certain limitations.

These results are significant for both IsMF and IFS practitioners and beneficiaries in developing effective financial strategies. Islamic microfinance practitioners must focus on building financial awareness, financial knowledge, financial behavioral change, and financial inclusion to achieve the ultimate goals of IFI products and services. Moreover, an integrated Islamic crowdfunding cash waqf model has the potential to play a significant role as an alternative tool, particularly in association with fintech. This model is essential for crowdfunding campaigns for funding productive projects in both rural-based and urban-based areas, involving different stakeholders.

This chapter is organized into six sections as follows: The first section commences with the research topic and or the statement of the research problem. The second section presents the rationale or importance of this study. The third section describes the significance of the study, and the fourth section discusses the research methodology as well. The fifth section explains the limitations of the study. The final section gives an illustration of the design and organization of the dissertation.

1.1 Research Topic|The Statement of The Problem

Financial inclusion is a crucial topic aligned with economic activity in contemporary trends and it's a popular agenda across the entire world. In this regard, it is accepted by scholars as well as economists due to its huge contribution to the financial industry, particularly for middle and low-income societies (Obaidullah, 2008). Even though the role of financial inclusion is very significant for accessing funds for developing countries' low incomes to obtain credit from banks and similar credit facilitators financial institution is almost none. The global finindex database report revealed that in 2021 the “*Adult account holders in banks, credit unions, MFI, and mobile service*”, providers were estimated to be 76 percent globally, whereas the average growth rate of account holders in emerging countries was 71 percent. Unfortunately, the lack of “Financial inaccessibility”, and “Lack of account ownership” is still very high in emerging countries, with Ethiopia is 34.8 percent. Notably, Ethiopia is a developing country that has been a vast financial impediment for various reasons such as a lack of finance and low income both in urban and rural areas (S. Ali & Alemu, 2018, p. 308). Studies show that out of Ethiopia's population, more than 70 percent of the habitat is

living in rural, with limited financial resources and infrastructure as well as an income of \$850 annually per capita with the lowest in the globe (Shifa & Fuller, 2022, p. 1270). So far it is crucial to facilitate and create an enabling environment for financial development and infrastructure in order to improve the contemporary credit ecosystem or break through an alternative model. To do so, identifying the major problems or deficiencies of financial infrastructure both in conventional and Islamic institutions has been associated with lending to microfinance in emerging countries, particularly in Africa and the Middle East (Iqbal & Mirakhor, 2013). Similarly, fintech is very important to support newly operated institutions like banks, insurance, microfinance, and others by providing alternative options in case of “Payment, lending, and investing”, whereas, nowadays the total investment amount in 2017 due to fintech exceeds \$150 billion over the globe (Al-Daya et al., 2022, pp. 15–33).

Similarly, studies undertaken by Carbo et al., (2009), cited the main causes of financial exclusion for economically emerging countries into two categories: the first reason is due to the enormous population numbers and lack of capital funds, whereas the second reason is a lower level of financial development when it is compared to highly economically developed countries. Several sources reveal that the reason for financial development varies from developed countries to undeveloped countries or from public and private sides as well. Traditionally, many Muslims have avoided participating in the financial sectors due to religious concerns, as interest-based products and services dominate the industry. Therefore, it is worth mentioning a few of them like political space/role, unequal resource distribution, and market-based incentive systems can also not work properly due to various reasons. The other main reasons for financial underdevelopment are insufficient amounts of savings in developing countries for investment and the ability of financial institutions to collect savings funds in these countries are very low (Carbo et al., 2009).

The majority of studies categorize the lack of financial accessibility into two groups: financial exclusion versus financial inclusion and economic empowerment due to various factors. As to mention some of the common barriers to the lack of financial development are financial distribution (“Banks and other institutions”) or distance issues for the rural in particular, absence of collateral (“Creditworthiness”) gender gap, religious issues (Muslim versus non-muslims), and so on.

Ethiopia's financial exclusion is becoming a critical issue due to, a high rate of many individuals citing religious reasons for not using bank accounts for decades (Er & Mutlu, 2017a; Hersi, 2018; Iqbal & Mirakhor, 2013), and there is a gap in the facility and comprehensive services that could not narrow down the gaps like gender, religion, distance issue for financial services in urban-rural, among others to foster financial inclusion. Moreover, in Ethiopia, the practical implementation of Islamic finance has newly emerged (N. Alam et al., 2021, p. 224) and it is in the infant and formation stage. Therefore, there is a huge gap and no sufficient support from various stakeholders in the financial industry. So, primarily there is a lack of necessary awareness, a lack of access to Islamic financial institutions for many years, and insufficient regulations to assist IFI. Nowadays, based on reforms towards IFI proclamations and directives arranged relying on Shari'ah-compliant principles a few of the Islamic banking industry and a few Islamic Microfinance have begun to commence their operation depending on Islamic financial services basis. However, still, limitations such as Islamic financial awareness, knowledge, uncertainty, behavior, and financial inclusion among others including some regulatory issues are there.

Some research found that financial development is the main challenging issue of undeveloped countries due to the large number of unemployed, limited access to microfinance or SMEs (Hersi, 2018), and underdevelopment cases among the youth and adults in the states (A. E. Ali, 2015, p. 298). In addition, the high cost and the riskiness of poor financing borrowers including the participation of youth (male and female) owned Islamic Microfinance, has an insufficient provision of financial services to middle & low-income society. Therefore, promoting financial inclusion via Islamic finance, specifically Islamic microfinance is crucial for developing countries to enhance economic growth (i.e., economic empowerment) acting as individuals, as a community, and in urban and rural. Moreover, in a broad sense, adopting IsMF services plays a pivotal role in assisting to eliminate the narrow development growth of the economy and financial sectors as well.

Broadly, Global Findex Report of 2011 and 2014, the financial service facilities associated with gender gaps related to “Bank accounts” were high in 2011 (47% for women and 54% for men) and 2014 (58% for women and 65% for men) respectively (Kim & Moor, 2017). According to the Global Findex Report of 2021, gender gaps in

account holders started to decline gradually as well as falling from 9% to 6% in economically emerging countries (Klapper et al., 2021). Furthermore, financial exclusion and lack of sufficient financial accessibility are common issues globally. The global finindex database focused on the “Financial inclusion, digital payments & resilience” report in 2021 reveals that “*Adult account holders in banks, credit unions, MFI, and mobile service*” providers reach out 76% globally. This report indicates that the average growth rate of account holders in emerging countries was 71 percent. However, on the other side, the lack of “Financial inaccessibility” and “Lack of account ownership” is still very high in emerging countries. For instance, a comparison of account ownership between Kenya, Uganda, Tanzania, and Ethiopia shows us 81.6%, 59.2%, 46.8%, and 34.8% respectively. The gender-based account holders in Ethiopia have been 40.9% for males and 29.1% for females. Depending on the number of bank branches, ATMs, and particularly mobile transactions per 100,000 adults in Ethiopia is almost zero percent in Ethiopia according to the World Database 2017 report. In this context, Ethiopia is not only lagging far behind the globe, but also several Sub-Sahara African (SSA) countries in terms of “Account ownership holders, ATM branches, and Mobile transactions” across the country as well (Demirgüç-Kunt et al., 2017, p. 9).

Therefore, the average growth of account ownership in financial institutions for both emerging economies countries and Sub-Sahara Africa shows some progress from the previous, albeit still lagged worldwide. The reason behind, particularly in the SSA account ownership rise was due to mobile service-providing activities (Demirgüç-Kunt et al., 2021), and also the reason behind the improvement of financial inclusion via mobile transactions, nowadays in Africa is the innovation of Fintech (Abor et al., 2022). When comparing bank services and penetration in Africa with other developed regions still it is very infant, especially in SSA (Abor et al., 2022).

To find solutions for the above research issues the following research questions are underlined as follows: **1)** Does financial (awareness, knowledge, behavioral change, and income level) positively and financial uncertainty negatively influence financial inclusion through IsMF services adoption? **2)** Does financial attitude mediate the relationship between financial (awareness, knowledge, uncertainty, behavioral change, and income level) and financial inclusion through IsMF services adoption?, and **3)** Can

integration of the Islamic Crowdfunding-Cash-Waqf-Model (ICFCW) be a viable tool for resource mobilization and project funding mechanisms through Islamic Microfinance services for poverty alleviation in Ethiopia?

These and other similar questions have needed attention in a wide range from the perspective of social, economic, and political as well as in various barriers issues at different levels including university (higher education), academics, the governmental state or non-governmental in domestic or global, in emerging countries or well-developed countries nowadays.

1.2 The Rationale of The Study

Islamic finance is a system that takes into account both economic benefits and Shariah rulings, or Islamic law, and applies principles from these to the financial and economic sectors. Both economics and finance require services that promote financial inclusion in order to achieve economic success. However, the definition of economic success in Islamic finance differs from that of capitalist worldviews. In capitalism, economic success is defined by the ability of individuals or groups to accumulate wealth without limitations or restrictions, often making them heroes. In contrast, Islamic worldviews see economic success as a comprehensive achievement that considers both this world and the hereafter and is achieved through a balanced approach that follows certain rules of restriction and control. Islamic Financial Institutions (IFIs) are expected to balance profit-oriented and non-profit-oriented activities (Oumer, 2021).

Financial inclusion is essential for economic growth and development and requires clear guidance, proper funding mechanisms, and resource allocation. Ethiopia has experienced significant economic growth over the past two decades, for consecutive years from 2004 to 2015 on average a double-digit around 11%² growth. However, this growth has not translated into significant improvements for middle and low-

² *GDP growth (annual %) – Ethiopia,*

<https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=ET>
[04.05.2023].

income communities, and infrastructure development in urban areas hasn't been enough to alleviate poverty. Utilizing income redistribution through Islamic finance and microfinance can help promote financial inclusion and improve economic empowerment and commercial sectors, resulting in better products and services for middle and lower-income societies (A. G. Ismail et al., 2022, p. 68). Financial exclusion is a significant challenge in Ethiopia due to socio-economic and geographic factors, but policies can help mitigate these barriers (Desalegn & Yemataw, 2017, p. 34; Obaidullah, 2008). Similarly, Bangladesh's economic review of 2014 report studies has shown systematic exclusion from traditional microfinance and banking systems (Cumming et al., 2017; Hersi, 2018).

1.3 The Significance of The Study

Some studies illustrate financial inclusion is a recently favored topic (Mialou et al., 2017), especially after the scandal of the financial crisis in 2007-2009 across the globe. However, nowadays, it is the main development agenda in developing countries, mainly in Africa. At the G-20 summit upheld in Seoul 2010 in South Korea, financial inclusion was decided as the leading global development essence or thematic area and included in the 17 sustainable development goals (UNSGSA, 2016). Therefore, a lot of African countries including Ethiopia are commencing to adopt financial inclusion as their main national strategy agenda (Desalegn & Yemataw, 2017, p. 34; Le et al., 2019). The SDG is an important factor in achieving financial inclusion, which is a key developmental agenda from 2015 to 2030. Inclusive finance, like Islamic finance, is crucial to achieving these goals. By combining the two systems, we can mobilize resources through grants such as Zakat, Qard Hasan, and commercial-priced loans (Gundogdu, 2018; pp. 381-382). Islamic finance plays a vital role in enhancing financial inclusion (Obaidullah, 2008) and strengthening sustainable developmental goals.

Historically trade developed relies on “Equity-based partnership” known as *commenda* a form of risk-sharing instrument in the globe, particularly in Europe during the Middle Ages (Ng et al., 2015, p. 1). Therefore, nowadays, the profit and loss-sharing instruments such as Mudarabah and Musharakah and shari’ah-compliant tools like Murabaha and ijarah of Islamic Finance are not new phenomena but it is very

important to alleviate poverty, as well as contributing contracts such as Qard Hasan (benevolent-based which it gets less attention for decades but it plays a significant) to robust sustainable economic development in emerging countries (Hassan et al., 2021).

The Ethiopian financial industry is at its emerging stage including banking, insurance, and microfinance, associated with Islamic finance services like full-fledged banking services and Islamic microfinance in particular. In contemporary times inclusive finance for economic growth and sustainable development is a fundamental concept. As a result, this is crucial due to it empowers poverty alleviation strategy and minimizes inequality among people towards future investment, changes consumer behavior smoothly, and cope with financial risks properly (Demirguc-Kunt et al., 2017). Besides the financial industry of Ethiopia has shown progress almost in the past three decades. Therefore, the basis of financial services has a lot of pros and cons in line with risk management issues in particular. In order to cope with it, thus, the issue of risk sharing is not a new phenomenon, and similarly, Islamic microfinance is the basis of profit and loss sharing principles that are highly recommended or encouraged in current modern economic empowerment activity, especially for middle & lower-income societies across the globe.

In Ethiopia, the government has implemented laws, regulations, and directives to promote inclusive financial sector development and increase the financial market size. The goal is to create opportunities for financial services that benefit society. It is difficult to estimate the exact numbers of the Ethiopian population nowadays, albeit it is assumed that approximately the total population of Ethiopia in 2023 is estimated about 120 million plus. However, based on the source of the Ethiopia Central Statistical Agency (CSA) population and housing census report in 2007, the total population size was 73.9 million. With this regard, Islam is the second-largest religion in Ethiopia, with 33.95% in 2007 (CSA, 2007)³. Besides the proportion of the urban versus, rural population of Ethiopia is assumed that 16 percent and 84 percent respectively, whereas, the high financial services are limited to urban areas.

³ CSA, *Central Statistical Agency of Ethiopia Report: Population and Housing Census* (2007).

This research aims to integrate crowdfunding and the cash waqf model for resource mobilization, fund management, social solidarity, productive project financing, and responsible investment. IsMF has been an effort to connect social solidarity and economic empowerment, as shown by some study findings (Migdad, 2022b). Therefore, promoting interest-free products and making financial sectors comprehensive and inclusive through Islamic finance, such as Islamic banking, Takaful (Islamic Insurance), Islamic microfinance, and others, are essential. However, the government is opening doors in the financial sector, particularly in Islamic finance, and the foreign market is showing promising progress. This step creates opportunities for domestic and foreign stakeholders and widens the space for inclusive services that enhance economic growth and development, promoting productivity and contributing to society. Innovative action and technology-based production play a significant role in achieving robustness in production activity, according to the OECD's 2006 report (OECD, 2006).

One of the aims of this study is to develop a model for Islamic financing that aligns with shari'ah compliance and utilizes Islamic microfinance to promote fair and equitable participation in financial sectors. The research also focuses on examining the current system and developing a new methodology that incorporates technological advancements and digital financing. In today's world, digital financing and technology have immense potential to improve governance, and social financing programs, combat corruption, and facilitate financial aid during crises such as the COVID-19 pandemic (Demirgüç-Kunt et al., 2021). Effective and efficient management of money flows within both public and private organizations is crucial for financial development and economic growth, especially in emerging countries. In this context, consequently, the objective of the study is to design a strategy to develop an alternative model referred to as *Integrated-Crowdfunding-Cash-Waqf* (ICFCW) supporting the adoption of IsMF using FI concerning enhancing economic empowerment.

To summarize, the integrated crowdfunding cash waqf model is expected to fit the contemporary resource mobilization and allocation purpose for low-income societies that lack financial access across the globe, and emerging countries. For instance, in Ethiopia particularly nowadays in line with technology-based massive mobilization fund fundraising for grants through social media (online) is very popular, and it is

possible to use these business opportunities, especially for equity-based commercial financing as well by developing appropriate models and tools by modifying the existing one if necessary and designed productive project-based funding.

1.4 Research Methodology

The research methodology is the central and crucial part of academic study. Therefore, this section is organized as follows: it begins with an introduction and is also followed by presenting the research questions and objectives. Then, the research design, research instruments, research sampling techniques, and data collection were discussed step-by-step. Finally, the data was analyzed and concluded.

This section is endeavoring to develop appropriate methods in this study relying on 'dynamic approach' mixed methods, which is a combination of both qualitative and quantitative research methodologies. Besides, other research techniques are employed including literature reviews, descriptive methods, survey study and document analysis. Primarily, the structural equation modeling (SEM) method based on the IBM SPSS Amos 22, was also utilized to analyze and test the hypothesis of the research and the gathered information promptly.

The term "Research" is commonly defined as the act of seeking knowledge or wisdom, according to several studies (Kothari, 1985). It is viewed as a scientific study or an organized effort to gain new knowledge through problem-solving techniques (Billah, 2022), and, in other instances, as a process of gathering and analyzing data (Creswell, 2014). Research provides a framework for obtaining relevant information by formulating a suitable question and seeking answers in a systematic way (Billah, 2022; Creswell, 2014). This research utilized a mixed-method approach that combined qualitative and quantitative methodologies, with Systematic Equation Modeling (SEM) serving as the primary tool. SEM comprises confirmatory factor analysis and path analysis methods (Fan et al., 2016, p. 2). Qualitative research methods involve exploring knowledge through emotions, words, semi-structured interviews, and selected experimental teams to provide relevant information (Creswell, 2007, 2014).

This study is conducted relying on the constraint of financial inclusion in the light of the theory of planned behavior (TPB) to adopt Islamic microfinance. Similarly, some

studies revealed related factors such as financial knowledge, attitudes, and behavioral intention concerning promoting IsMF (Purwanto et al., 2022, p. 6). Besides, Aziz and Afaq (2018, p. 5), developed a research model framework related to “Awareness, uncertainty, attitude, and intention” that is utilized to measure the ‘adoption of Islamic banks’ as a whole in Pakistan.

A research data source mainly possessed primary and somehow secondary data. The first-hand data was obtained from a respondent participating voluntarily in semi-structured interviews and a survey study carried out, while the secondary data was utilized from various sources such as literature reviews analysis and document analysis of various documents of the annual report such as the National Bank of Ethiopia (NBE), the World Bank Data report, and among others, including Islamic finance (Islamic banking, Islamic Insurance|Takaful, microfinance, interest-free banking Windows) and entire financial institutions report in Ethiopia. Like primary data sources, secondary data is also crucial and classified into three parties such as documentary analysis, various sources, and survey questionnaires (Aderemi & Ishak, 2020). Besides, various research methods are applied due to different kinds of research forms.⁴

1.4.1 Research Questions & Objectives of The Study

This section focuses on the purpose and questions of the research. The dissertation's overall concept is linked to inclusive growth, which is crucial for understanding financial development and the provision of financial goods and services. Financial development is achieved through improved financial access and genuine financial usage, leading to financial inclusion. Islamic Microfinance adoption is also a viable option for promoting financial inclusion. Six factors, such as financial (awareness, knowledge, uncertainty, attitude, behavioral change, income level, and financial inclusion), play a significant role in enhancing financial inclusion services for economic empowerment and financial development. Additionally, financial literacy is

⁴ Mohd Ma'Sum Billah, *Teaching and Research Methods for Islamic Economics and Finance* (Routledge Taylor and Francis Group press: 2022), 31.

a key factor in promoting inclusive financial development and economic growth. This study aims to determine whether Ethiopia has adequate financial literacy based on the research outcomes and empirical data analysis of the literature review.

The overall goals of the dissertation are to gain an in-depth understanding, identify, analyze, and examine the relationship between the independent financial factors linked to financial inclusion through mediating factors a financial attitude, and discuss the lack of financial accessibility issues in Ethiopia. Conversely, it will address good practices by comparing them with other similar studies conducted worldwide. The study's general and specific objectives are as follows:

1.4.1.1 General Objective

- (1) To examine the in-depth understanding of inclusive development as well as the relationship between financial inclusion and Islamic financing by adopting Islamic microfinance in Ethiopia.
- (2) To investigate the effect of financial attitudes on promoting financial inclusion through the adoption of IsMF for economic empowerment in Ethiopia.
- (3) To examine the successful implication of financial inclusion for adopting IsMF for poverty alleviation in Ethiopia.

1.4.1.2 Specific Objectives

- To identify the relationship between financial awareness and attitude toward promoting financial inclusion through adopting Islamic Microfinance (IsMF) for economic empowerment in Ethiopia.
- To analyze the relationship between financial uncertainty and attitude toward promoting financial inclusion through adopting IsMF for economic empowerment in Ethiopia.
- To understand and deepen the relationship between financial knowledge and attitude on promoting financial inclusion through adopting Islamic microfinance for economic empowerment in Ethiopia.

- To evaluate the relationship between mediating financial attitude and low-income societies on promoting financial inclusion through adopting IsMF for economic empowerment in Ethiopia.
- To examine the relationship between financial behavioral change or intention and financial inclusion through adopting IsMF for economic empowerment in Ethiopia.
- To explore the relationship between income level and financial inclusion through adopting IsMF for economic empowerment in Ethiopia.
- To suggest (propose) the Integrated-Crowdfunding-Cash-Waqf Model to promote and strengthen financial development through adopting IsMF for economic empowerment in Ethiopia.

Notably, to attain the aforementioned general objectives and specific objectives, the survey case study and semi-structured interview research questions are employed (see appendixes I: part-I, part II, and appendixes II attachment). As indicated below, the prime research questions to respond to this study are focused on three questions underlined in section 1.4.2.3 as follows:

1.4.1.3 Research Questions

RQ 1: Does financial (awareness, knowledge, behavioral change, and income level) positively and financial uncertainty negatively influence financial inclusion through IsMF services adoption?

RQ 2: Does financial attitude mediate the relationship between financial (awareness, knowledge, uncertainty, behavioral change, and income level) and financial inclusion through IsMF services adoption?

RQ 3: Can integration of the Islamic Crowdfunding-Cash-Waqf-Model (ICFCW) be a viable tool for resource mobilization and project funding mechanisms through Islamic Microfinance services for poverty alleviation in Ethiopia?

1.4.2 Research Design of The Study

Research design is a plan or strategy used by academics, researchers, and practitioners to answer research questions (Kumar, 2011) scientifically. The design aims to combine relevance to the research purpose with economy in procedure. The functions of research and design are classified into two categories: (i) identification and development of procedures that require logical arrangements and (ii) explaining the overall quality of research procedures to ensure validity, aims, and accuracy (Kumar, 2011). The scientific research process consists of six stages: identifying the study problem, reviewing the literature, defining the purpose of the study, collecting and analyzing data, and reporting and evaluating findings (Creswell, 2014). Chapter five discusses the research model conceptual framework Fig 1.1 and the research hypothesis. The study examines the impact of independent variables (IV) on dependent variables (DV) with mediation (M) segments and without mediation factors. Accordingly, financial awareness, knowledge, behavior, income level, and uncertainty which is IV, and financial attitude is M in the light of financial inclusion (DV) to promote IsMF services adoption for economic empowerment in the following research conceptual framework model.

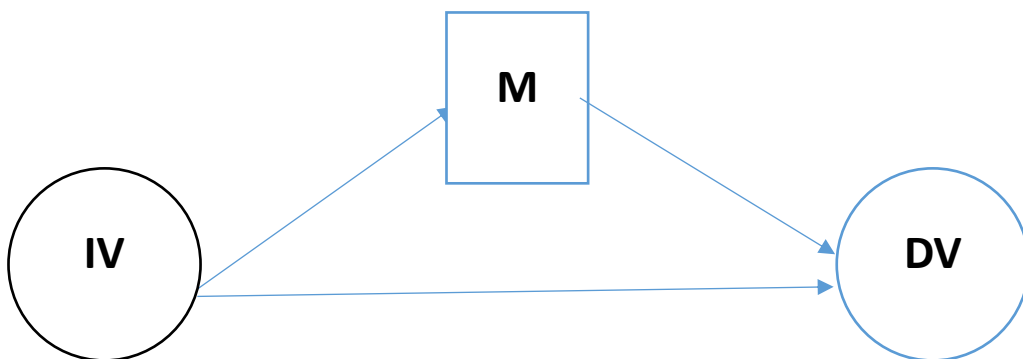


Figure 1.1: The Research Conceptual Framework

1.4.3 Research Instruments

A research instrument is a dire tool to employ the study. This research based on tools that are carried on to utilized in the study had mixed methods. The “Mixed methods” is a kind of comprehensive tool favor to design that is a merger of both quantitative and qualitative dataset collection and interpretation as well as fitting in to determine a

significant priority to channel data analysis between them built on the situation directly. The quantitative data gathering methods primarily focus on quantifiable data (numerical/statistical), whereas the qualitative data collection methods are inclined to the text or images at large (Creswell, 2014).

Based on these notions this study underlying the following methods accordingly;

1.4.3.1 Research Methodology: Mixed Methods

In this paper dynamic approach called mixed methods consisting of both qualitative and quantitative techniques has been endorsed. Qualitative research mainly focuses on explaining, understanding, exploring, and identifying the feelings, beliefs, and attitudes of people based on their experiences through various experimental groups of people (Kumar, 2011). Besides, it focuses on organizing and explaining the information or data in a way that it's making more sense in terms of respondents, particularly to categorize and note patterns depending on the situation in general (Cohen et al., 2007).

On the other side, the quantitative research technique focuses on transforming the collected data (information) into statistical forms known as “*Codes*”, while it's organized either manually or by computers (Cohen et al., 2007; Kumar, 2011). Neither qualitative nor quantitative data analysis is more crucial than the other. In this context, it's only utilized entirely based on “*Fitness for the purpose*” (Cohen et al., 2007).

1.4.3.2 Case Study

When collecting primary data, survey methods are often preferred. One effective way to conduct surveys is through Google Docs forms, which can be distributed via email and social media platforms using snowball sampling. This method is particularly useful for gathering data from large populations in a manageable timeframe (Creswell, 2014). This paperwork consists of survey questionnaires divided into two parts. The first part is about the respondent's demographic information such as gender, age, religion, education level, marital status, occupation, monthly income, and preferred types of accounts or services. The second part focuses on six factors: financial awareness, uncertainty, knowledge, attitude, behavioral change, and income level.

This section has a total of 32 questions and uses a five-point Likert scale to assess responses, ranging from strongly disagree to strongly agree.

To analyze the outcomes of the study, SPSS Amos version 22 was used to interpret the data. This program utilized various tools such as normality assumption, validity, and reliability tests (Cronbach alpha test) using Pearson correlation and t-tests. Additionally, a literature review, descriptive qualitative method, systematic equation modeling (SEM), and regression data analysis techniques were also used accordingly.

1.4.3.3 Research Variables

Table 1.1 demonstrates the source of the survey questionnaire of this study. The survey questions were classified into two categories. The first part is focused on demographic information and consists total of eight questions. And also, the second part of the survey study is composed of seven factors including five independent, one dependent variable, and one mediation variable. Independent variables such as financial awareness consist of 3 items scale, uncertainty consists of 3 items scale, knowledge consists of 4 items scale, behavioral change consists of 6 items scale, income level consists of 6 items scale, attitude mediation variable consists of 6 items scale, and FI dependent variable consists 4 items scale. The entire survey questionnaires including demographic, in this study, which is utilized to collect the dataset are made up of 40 items in general.

Table 1.1: Source of Survey Questionnaire

No	Question	Factor/construct	References/Sources
I (1)	8	<i>Demographics</i>	6 items Aziz & Afaq and 2 items Author
II	26	<i>Six Factors</i>	
2	1-3	Awareness	Aziz & Afaq (2018), Cogent Business & Management

	4-7	Uncertainty	Aziz & Afaq (2018), Cogent Business & Management
3	8-11	Knowledge	Purwanto et al. (2022), Cogent Business & Management
	12-17	Attitude	Purwanto et al. (2022), Cogent Business & Management
	18-23	Behavioral change towards IsMF	Purwanto et al. (2022), Cogent Business & Management
4	24-29	Income	Maouloud & Abdullah Othman (2021), TUJISE
5	30-33	Financial Inclusion (FI)	Rastogi & Regabiruntha E. (2018)

1.4.3.4 Literature Reviews of Study

Literature review methods assist a researcher in grasping overall gaps and supporting to delve into other approaches to solve the research problems. Besides, a literature review is revealed as a prime party of secondary sources such as books, book chapters, “Peer-reviewed” articles, various reports, and so on (Booth et al., 2015). In this notions, in this study, analysis of the literature review employed through leading books and outstanding articles as well as various documents of the annual report from the National Bank of Ethiopia (NBE), the World Bank Data report, and among others, including Islamic finance (Islamic banking, Islamic Insurance|Takaful, microfinance, interest-free banking Windows) and entire financial institutions report in Ethiopia.

1.4.3.5 Structural Equation Modeling (SEM) of The Study

Structural equation modeling (SEM) is referred to as “*The use of two or more structural equations to model multivariate relationships.*” The concept of “Multivariate relationships” has been explained as “Involving simultaneous influences and responses” related to model building as well as interpretation (Grace, 2006, p. 10). Utilizing this method can have its own pros and cons. To mention a few, it has pros

related to the notion of merging a series of equations into a “Multivariate” one way as well and it gives other options on how far for interpretation. Meanwhile, it has also cons associated with various impediment issues like “Nonlinear modeling, reciprocal influences, and many more” (Grace, 2006, pp. 11–12).

Fundamentally, Wright discussed SEM as a basis or origin of “The analysis of path relations” (Grace, 2006, p. 12). Therefore, currently, SEM is highly aligned with path “Relation analysis” and “Factor analysis.” Path analysis is in its original sense connected with “Wrightian path analysis” and in modern terms, it relies on the linear structural equation - LISREL⁵ program” and maximum likelihood methods to “test overall model fit.” Consequently, the SEM is the integral element of “Confirmatory factor analysis” which merges path analysis and factor analysis in a single system in contemporary cases, and SEM has been highly associated with “Latent variables” (Grace, 2006, pp. 13–15). Latent variables are a concept that is associated with it and is presumed to have been existed (i.e., human intelligence- IQ), but no way of observing it directly (Grace, 2006, p. 14). SEM methods are referred to as a compound of regressional and factor analysis as well as statistical modeling techniques that deal with the computing of software programs (Grace, 2006, p. 15).

In this study, confirmatory analysis (CFA) was carried out in the first to test model fitness through observing factor loading assessment among others. Then the SEM is utilized to test whether the research hypothesis assessment result is supported or not. The SEM methods provide the researcher an option of determining and computing the study testing of the good-fits-model promptly and identifying factors more suited to channeling for financial development to adopt IsMF in the light of the theory of planned behavior associated with factors like financial awareness, knowledge, uncertainty, attitude, and behavioral change, income level, and financial inclusion and other for improving financial products and services in the financial ecosystem at large.

⁵ <https://www.statisticssolutions.com/lisrel/> [4.05.2023].

1.4.3.6 Descriptive Methods of Survey Study

Descriptive methods of survey study refer to a research method used in social research inter alia business research, and public opinion case study polls, among other fields where datasets are gathered from a massive number of respondents in order to understand a particular phenomenon. This method uses survey questionnaires to collect relevant information from various participants. In addition, it consists of the key elements of survey studies are classified as follows: sample size selection to reach out to the target population, data collection techniques, qualitative or quantitative analysis in case of descriptive survey using quantitative or qualitative methods statistical significance, such as frequency analysis, normality assessment, measures of central tendency, and can be underlined to explain its summary and interpret the dataset accordingly. Besides, the sample data for normality distribution as well as the validity and reliability of the survey studies pay attention to addressing the generalizability of the results during data interpretation. Furthermore, descriptive methods in survey studies provide valuable insights in terms of decision-making processes and an in-depth understanding and recognition of social research on the subject of social, economic, or behavioral change in particular.

1.4.4 Data Collection

A case study of survey methods was employed through "Snowball sampling" techniques, which were applied to gather relevant information. Snowball sampling is carried out to collect proper information from IsMF and other Islamic financing providers and users' including white-collar employees. This step helps a researcher to provide relevant answers to the research problems via research questions and hypotheses following data collection in sequence (Creswell, 2014). Based on the structured methodology the study could be formulated to collect or acquire useful information utilizing single-form methods or mixed forms methods through survey questionnaires and semi-structured interviews via emails (Kumar, 2011). In this sense, in the first place, the research problems are identified thoroughly and the next stage will be designed in good conditions to underlying procedures and processes to follow to gather the significant data (Creswell, 2014).

Meanwhile, the dataset utilized in this study was gathered from 2202 respondents. The researcher receives the necessary ethical permission from where it is concerned, engaging in good manners, and conducting sound ethical behavior with the respondent as well.

1.4.5 The Data Analysis

This stage is the step following the data collection procedure to utilize the relevant information collected from various sources and respondents including individuals or selected groups accordingly. The ultimate goal of this stage is mainly to analyze, discuss, and interpret the findings of the gathered dataset in the form of tables, graphs, and figures, among others to make genuine recommendations and conclusions reports in line with answering the research questions utmost (Creswell, 2014).

1.5 The Limitations of The Study

This section focuses on the research boundary. The study has some limitations, especially in terms of an empirical study of field coverage, among other constraints as well. Mention few of them are related to the rules, regulations, legal issues, narrow products and services, frameworks, procedures, and guidance, which do not assist interest-free financial services yet. The second limitation is associated with data collection for research through a case study such as survey questionnaires and semi-structured interviews, whereby, carrying out this method in Ethiopia both online and offline is very challenging. The third limitation is linked to poor documentation and/or an incomplete or defective record. Last but not least, is the lack of awareness regarding the issue of Islamic finance, particularly Islamic microfinance in the light of financial inclusion. Finally, the limited schedule to gather essential data and the budget constraint required to underline the research. As mentioned earlier, gathering research data in Ethiopia can be challenging due to various factors. However, as a researcher, I am prepared to overcome these obstacles by collecting survey questionnaires and conducting semi-structured interviews with both service providers and users in different sectors, such as banking and microfinance. I will also utilize snowball methods to gather relevant information as primary data and collect secondary data

from annual reports. It can be recommended that other researchers, academicians, and students in related subjects are encouraged to develop their research problems and investigate new methods.

1.6 The Design and Organization of The Dissertation

This section explains the structure of the research chapter in a sequenced manner. The first chapter of this research study begins with an introduction followed by the research problem, its rationale, the significance of the study, and an explanation of the research methodology. Additionally, this section provides a brief overview of the research methodology, which includes research questions, research designs, the research sample size, instruments used in data collection, and data analysis.

Chapter Two provides a detailed literature review related to financial inclusion, among other topics. This chapter of the study is divided into three major sections. The first section discusses financial inclusion, the second section focuses on the theory of planned behavior, and the third section presents fintech-based instruments, such as crowdfunding, associated with the proposed research model. These instruments are expected to be practical and implementable in the financial development of Ethiopia. Nowadays, digital financial services are very popular, including crowdfunding, which is a technology-based contemporary tool that promotes entrepreneurship to enhance fundraising, particularly through a website or social media-based platform to mobilize resources from the masses by utilizing proper campaigns. In this chapter, we provide an overview of inclusive finance and its significance in promoting financial inclusion. Despite being in its early stages in Ethiopia, we delve into the global literature on financial inclusion. Conversely, section three in this part assists in channeling fintech-like crowdfunding platforms with financial inclusion association to digitalization which is a huge potential and possibility of utilizing equity-based commercial business financing in advance, by increasing the awareness of societies accordingly.

Chapter Three explores small and medium microfinance and Ethiopia's financial development history at large. The results also focus on the relationship between inclusive finance and access to financial services for marginalized communities in Ethiopia or emerging economies. Moving on to the third chapter, we present the financial framework that supports financial access and usage. We also introduce

Islamic microfinance, which currently has a limited presence in Ethiopia. However, it has the potential to grow and foster the economy. We briefly touch on conventional microfinance and the historical development of Ethiopia's financial industry broadly too. We explore technology-based financing as an alternative instrument for funding economically marginalized groups.

Chapter Four comprises the most significant part of the research associated with promoting financial inclusion through Islamic microfinance in Ethiopia. Accordingly, the collected datasets from first-hand or primary sources as well as secondary sources have been analyzed and interpreted well to suggest appropriate answers and models enhancing financial development and economic empowerment for middle and low-income societies in the country.

Chapter Five presents the research findings on integrated Islamic crowdfunding and cash waqf model based on Islamic microfinance in Ethiopia. The data collected from semi-structured interviews and pilot surveys have been analyzed and interpreted to provide suitable solutions and improve the model for financial development and economic empowerment of underprivileged communities in the country.

Chapter Six discussed data analysis based on research findings related to financial inclusion associated with financial stability, financial debt sustainability, microfinance implementation, policy recommendations, as well as conclusion remarks.

CHAPTER II

FINANCIAL INCLUSION

In this chapter, we will see two sections; the first section focuses on financial inclusion, and the second section discusses the theory of planned behavior (TPB), in the aspect of the fintech-based it is channeling into digitalization financing to improve the financial industry ecosystem. To understand the relationship between them, it is an endeavor to respond to the following research questions;

Research Question 1: Does financial (awareness, knowledge, behavioral change, and income level) positively and financial uncertainty negatively influence financial inclusion through IsMF services adoption?

Research Question 2: Does financial attitude mediate the relationship between financial (awareness, knowledge, uncertainty, behavioral change, and income level) and financial inclusion through IsMF services adoption?

This study analyzes the literature review to explore the concept of financial inclusion (FI), financial attitude, and the adoption of Islamic microfinance. It aims to establish a connection between financial factors (such as awareness, knowledge, uncertainty, behavioral change, and income level) and how they can be influenced by financial attitude. The chapter presents and describes the relationship between financial factors, financial attitude, and Islamic microfinance (IsMF) services.

Thus, the chapter covers financial inclusion and its sub-section as well as the Theory of Planned Behavior (TPB) in its sub-section in-depth explanation. Finally, concluded remarks.

2.1. Introduction

Financial inclusion (FI) is referred to as be pivotal dimension towards inclusive economic growth, development, and welfare of human beings worldwide. Enhancing financial inclusion (i.e., financial development) can be directly connected with the

increase in financial literacy (FL) (Dinc et al., 2021, p. 251). So far OECD/INFE (2018, p.37), has revealed that awareness is a crucial aspect in terms of financial inclusion. Even though numerous studies evolved associated with financial illiteracy the majority of this study is based on regional or country based, whereas only some researchers attempt to examine more attention that is enhanced to a universal level to scale up for utmost approach and far-sighted features global and intercontinental to enhance major dimensions of financial illiteracy constraint. Dinc et al. (2023), re-examined the factors of Islamic financial literacy on a global scale in the context of comparison with the cross-country base. In their study, they reached out to 3,579 respondents to gather information from 28 countries online between November 2019 to February 2020 and utilized data analysis using CFA methods. Their study finding revealed that the factors of “Islamic financial behavior reliability (Cronbach alpha) scored 0,856, Islamic financial knowledge reliability scored 0,698, Islamic financial attitude reliability scored 0,616, and Islamic financial awareness reliability scored 0,673” been obtained (Dinc et al., 2023).

This section focuses on various factors which are presented associated with the analysis of the literature reviews, examining, and discussing relying on financial inclusion toward adopting IsMF in the light of a theory of planned behavior through six dimensions such as financial awareness, uncertainty, knowledge, attitude, behavioral change, and income level variables. Depending on these factors several conceptual frameworks and theories were breakthroughs to re-examined and investigate factors' relationship and influence one another.

Therefore, many studies have been investigated related to this context. Dinc et al. (2021), conducted with their colleagues' other studies that focused on the “Islamic financial literacy scale” in the context of the current phenomenon interlinked with financial literacy in Türkiye. In that study, Dinç and his colleagues examined the following four variables “Financial behavior, knowledge, awareness, and attitudes” associated with financial literacy relying on the data collected from 287 respondents by taking into consideration (Dinc et al., 2021, p. 253). Similarly, the OECD discussed the term financial literacy as “A combination of awareness, knowledge, skill, attitude, and behavior necessary to make sound financial decisions and ultimately achieve individual financial well-being” (OECD/INFE, 2018, p. 4). Dinc et al. (2021, p.257),

studies finding demonstrate that the “Four factors” statistical results indicate that 60 percent of the variance in the total constraint aligned with all calculated factors which showed that the reliability test of statistic scores is viable due to the obtained outcome being greater than 0.5 which is meet a requirement criterion. At this point, the reliability and validity of the factor assessment test are viable and greater than 0.7, which is preferable based on the requirement criteria settled. Related to this notion stipulating comprehensive financial services accessible and viable to the entire society has become a primary target for several emerging countries including Ethiopia (Bhatia & Singh, 2019, p. 182).

This chapter is organized into three major sections and divided into various sub-sections. The first section focuses on an overview of financial inclusion and a brief of different sub-titles related such as small businesses and their social and economic impacts, sustainable global economic development, and the relationship between microfinance and SMEs with financial inclusion. The second section presents an overview of the theory of planned behavior with its numerous sub-titles associated with the aspect of factors like financial awareness, financial uncertainty, financial behavioral change, financial attitude, and income level, to enhance financial inclusion through IsMF services. Moreover, the third section focuses on the technology-based financing methods of crowdfunding that are combined with cash waqf fund which is expected to channel into digital financing to improve the financial industry, and finally, a conclusion.

2.2. Financial Inclusion: What It Is and Why It Is Matters

Globally, financial inclusion is a concept that gets, more attraction, and attention, and is remarkably argued, particularly following the financial crisis of 2009. Then in line with improving sustainable economic development and finding financial solutions, the entire corner of the world commences financial inclusion discussion as an ultimate goal. In other words, the events of the financial crisis have triggered and driven numerous entities towards enhancing economic growth, development, and economic empowerment policy to increase saving and investment (Desalegn & Yemataw, 2017, p. 32). A recent report highlighted that three particular areas - the standard-setting community, financial inclusion, and social inclusion - have experienced significant

growth (Mialou et al., 2017). This experience helps to integrate financial inclusion with business standards settled, as well as to encourage and foster equality and poverty alleviation through substantial transparency (Z. A. Aziz et al., 2019; Hersi, 2018).

Nowadays, it is an agenda of numerous studies and conference discussions to elaborate on its impact, measurement, and determinants (Hassan & Lewis, 2017). Therefore, due to this reason, several governments have settled goals and strategies regarding financial inclusion in their policy as prioritized (Hassan & Lewis, 2017; Kim & Moor, 2017). For instance, The World Bank itself has set some tasks, plans, and projects as well as policy priorities in the light of financial inclusion to robust and encourage economic sector development until 2020 as its prime goal (Naceur et al., 2015).

2.2.1 Definition of Financial Inclusion

Financial inclusion is referred to as the possibility of an individual or group of people's access to financial products and services in one way or another, whereas financial exclusion is the inverse of it (Kim & Moor, 2017). Sapre (2021), defines the term financial inclusion as the ability of individuals or businessmen to reach financial services and products accessible to them accordingly through credit, payments, savings, transactions, and insurance in an apt way to meet their needs (Nandru et al., 2016; Senzu, 2021). In another expression, financial inclusion refers to the timely provision of financial products and services to all segments of society (Ozili, 2021). World Bank defines financial inclusion (financial access) as the absenteeism of payment/price as well as non-payment/price deterrents in the utilization of financial services (Er & Mutlu, 2017a).

Financial inclusion refers to the process of providing access to financial services at a fair price to a large group, including low-income segments of society. For the purposes of this study, financial inclusion and financial development are used interchangeably. Financial development programs involve not only owning a bank account, but also having access to various financial services such as savings, credit, payments, money transfers, and insurance within the financial ecosystem and industry (Nandru et al., 2016). In other saying, financial inclusion is defined in different literature commonly as a process of promoting equitable access, quality financial services, and goods, the proportion of individuals and microfinance that utilized formal financial services, as

well as as it is essential for economic development in the distribution of financial resources (Desalegn & Yemataw, 2017, pp. 33–34). It is also a term used to describe the process of helping lower-middle-income societies by providing access to business products and services that enhance fairness and equity for all citizens. In simple terms, it means having a formal or informal financial account, such as a bank, microfinance, or other savings and credit cooperative (Baza & Rao, 2017). According to the World Bank Group, 2021 report financial inclusion is defined as any payment like wages or government assistance, settled through an account that can support economic development and sustainable goals (Demirgüç-Kunt et al., 2021).

Financial inclusion refers to the process of promoting comprehensive development and financial services to empower financial institutions and enhance economic growth. Furthermore, encouraging macroeconomic stability, enhancing macroeconomic efficiency, and raising social equity are essential for achieving holistic development. These fundamental elements should be pursued to a higher standard at large (OECD, 2006). A vast literature analysis explores the giant connection between commercial development and growth in the light of financial inclusion (Shaikh et al., 2015).

In essence, financial inclusion means making finance accessible to wider society, which is outside the formal or informal financial ecosystem that provides financial products and services for various purposes.⁶ It is an essential tool for financial development, which begins with individuals or groups having bank account ownership for their basic business activities using fintech services, including mobile technology for sending and receiving money and payment, as well as storing or saving digital money transactions (Demirguc-Kunt et al., 2017). Nowadays, mobile payment services reduce the distance or trip barriers for numerous public-based and private-based services. In this context, people or business entities make payments (send or receive) transactions for several purposes such as work issues, sale of production (agriculture goods and services or among others), purchases at retailers or wholesale

⁶ Nuri Aksoy, “What Monetary Authorities (Central Banks) Should Do For Islamic Banks”: *Towards a New Theory of Finance: Can Islamic Finance be It?*, ed. Monzer Kahf (First Edition, İZU Press, 2022), 291-360.

stores, billing utility, and for remittance purposes through mobile services (Demirguc-Kunt et al., 2017).

To sum up, several studies claim that implementing financial inclusion serves as a means of poverty alleviation and minimizes the income inequality gap (Yu, 2021, p. 1). Accordingly, other study results indicate that IsMF is better at improving social financing and channeling financial inclusion than its opponent broadly (A. E. Ali, 2015; Hersi, 2018). Similarly, in the current emerging economic development and growth trends, financial inclusion is a crucial component of poverty alleviation and enhances state development (A. S. Ali, 2020; Hersi, 2018). Finally, last but not least, financial inclusion is a great tool to eliminate poverty and inequality to serve humankind to decide on their future investment, oversee their consumption, and cope with financial perils in particular.

2.2.2 The Importance of Financial Inclusion

Financial inclusion is not a new concept, but it gained more attention during the G-20 summit in Seoul in 2010 when the financial crisis was thoroughly discussed (Bhatia & Singh, 2019, p. 183; Desalegn & Yemataw, 2017, p. 31), and also get the attraction of national and an international consideration after the conference that is held in Addis Ababa, Ethiopia on the title “Finance for development” (Senzu, 2021). Other studies stated that financial inclusion gained popularity in the early 2000s (S. S. Ibrahim & Sanusi, 2022, p. 90). Moreover, it will be discussed here to delve into its significance as well as its importance via its features and among others to understand what it is and what it is in accord with among other characteristics presented.

2.2.3 The Features of Financial Inclusion

The essence of financial inclusion is aligned with providing an option for numerous goods and services delivery to the vast society as individuals or groups holistically including the low-income blocs of nations adequately or economically. Broadly, FI can be stated as the proportion of communities enclosed using a parameter such as the size of commercial bank branches in terms of the population they provide services to, bulks of ATMs in the areas, amount of deposits in the bank's account, and size of

loans for low-income families as well as SMEs (Iqbal & Mirakhor, 2013). Different studies' findings revealed that even though expected to a giant number of societies can benefit from financial inclusion, due to enormous reasons including religious cases sometimes individuals or groups of societies may voluntarily exclude themselves from regular financial activities (Er & Mutlu, 2017a; Obaidullah, 2008). Furthermore, they may also be excluded due to cultural cases, despite having the ability for financial involvement (Beck et al., 2008).

A report by the World Bank in 2014 revealed that only 22.79% of adults over the age of 15 have a financial institution account in Ethiopia, and 0% have mobile money accounts. In Sub-Saharan African countries, the average is 28.9% for financial institution accounts and 11.5% for mobile money accounts as of 2014. However, in 2021, globally, 76% of adults have formal or informal accounts at credit unions, microfinance organizations, and mobile banking for digital payments, which is an increase from 71% in 2014. Furthermore, the percentage of adults using digital payments has risen from 35% in 2014 to 57% in 2021 (Demirgüç-Kunt et al., 2021). In economically emerging or low-income countries, studies have shown that in 2014, 22.3% of adults had financial institution accounts and 10% had mobile money accounts. In comparison, Ethiopia lags behind many Sub-Saharan African countries in terms of financial facilities and access (Baza & Rao, 2017).

According to the 2017 World Bank report on the global Findex database, only 35% of adults over 15 years old have a financial institution account, while none have mobile money accounts (Demirgüç-Kunt et al., 2017). However, Ethiopia has seen a significant increase in the number of bank branches, from 970 in 2011 to 3,187 in 2016, and a rise in the number of banks from two to 29 between 1991 and 2022. Additionally, the number of microfinance institutions has grown from zero in 1991 to 45 in 2023. Despite this progress, access to formal financial services remains limited to urban areas, with over half of ATMs and 34.4% of bank branches located in Addis Ababa. There is a significant untapped market of potential borrowers and savers who do not use formal financial services.

A vast analysis of the literature reviews indicates that bankers do not intend to provide long-term loans for new startup businesses. The reason is that the options to fail in the business of such a position can be high. With due respect, it is worth mentioning that,

even if they provide a loan of utmost eagerness for short-term like equipment and machinery financing⁷ (HBR, 2018).

2.2.4 Financial Inclusion Access To and Use of Financial Services

To facilitate and create inclusive financial ecosystems, the financial industry can provide business entities based on two methods. The first is improving and adjusting the existing system and implementing the second method, which is focused on technology-based (i.e., fintech), which is popular in contemporary periods. For long-lasting decades, financial institutions commonly utilized previous financial tools for a dozen years. However, currently, it periods to upgrade the previous one unless otherwise no way to escape without transforming this system to the later one to proceed with business, which is an alternative tool and more comprehensive and very modern too. Therefore, overcoming such problems is expected by implying combined methods and robust innovative notions, which is crucial to encourage financial accessibility to entire societies in an extended scope.

2.2.5 Financial Inclusion Barriers

The reason for financial exclusion varies or acts according to individuals or groups relying on the financial products and services they have in mind to utilize. This denotes that there is no single factor for financial obstacles or a unique solution matched with it. Some research work demonstrates that almost 80% of the most cited reason in line with adults for the lack of formal accounts in financial institutions has been attached to lack of enough money, particularly in Sub-Sahara Africa and Northern Africa (Demirgüç-Kunt & Klappe, 2012, p. 7). With all this in mind, different studies (Carbo et al., 2009, pp. 35–36) have identified various types of barriers to inclusive financial services. These barriers include difficulties in obtaining adequate financial services,

⁷ Harvard Business Review, *Entrepreneur's Handbook, Everything you need to Launch and Grow Your New Business* (Boston, Massachusetts: Harvard Business Review Press, 2018), 115.

poor delivery systems, inadequate knowledge, psychological impediments, cultural differences, and the impact of legislation and regulatory rulings among others. All of these factors contribute to the lack of affordability of financial services and “... *several types of access barrier like distance, risk of assessment factors related to market and racism as well as disabilities issues for some and income level, lack of bank branches or less including ATM*” and so on.

Financial development is crucial for poverty alleviation and is needed for economic growth.⁸ The significance of technologies for financial inclusion is claimed in different analyses of literature reviews for various purposes. The paramount reason for financial exclusion is categorized as follows: self-exclusion (voluntary) due to personal barriers, unfair price (high price of financial products), conditional exclusion, psychological exclusion, market-based exclusions as well as lack of awareness, low income or poverty, and financial literacy are some of the vital constraints to do so (Nandru et al., 2016, p. 142) and comprehensive FI has already not only govern financial structures but also focused on to examine social exclusion as well (Bhatia & Singh, 2019, p. 183).

2.2.6 Financial Exclusion: Cause and Consequences

Financial exclusion can be merely referred to as the opposite of financial inclusion. Major studies illustrate the reason behind the exclusion of bank services, associated with “Poverty or credit histories,” “Low income,” lack of bank account, and pension account, among others in particular (Carbo et al., 2009, pp. 87–88). The experience of the UK and the US show that the consequence of financial exclusion is identical in both countries. The “Cash cheques” and “Long-distance” payments are some of the UK experiences arranged as a ramification in case customers do not have a deposit account or are un-banked, which is excluded from mainstream financial services (Carbo et al., 2009, pp. 88–89). In addition, the consequence of financial exclusion from formal financial services, especially lack of credit from the mainstream pushes

⁸ World Bank, Financial development; <https://www.worldbank.org/en/publication/gfdr/gfdr-2016/background/financial-development> [06.05.2023].

householders for access to other options or alternative sources (Carbo et al., 2009, p. 89).

The Ethiopian constitution grants every member of society the right to get financial provisions and improve their livelihoods for economic development. According to Article 89/2 of the Ethiopian constitution, all citizens have "equal opportunities and a fair distribution of wealth" to improve their economic status. As a result of the reality of today's world, without access to finance it is difficult to improve an individual's standard of living (Oumer, 2021, p. 38).

2.3 Inclusive Financial for Growth and Development

The ultimate or top priority of entire societies is to achieve strong economic growth and development. Financial inclusion is crucial for promoting socioeconomic growth and empowerment (Er & Mutlu, 2017b). Many studies show that SMEs can significantly contribute to the growth and development of nations worldwide through financial inclusiveness (Bello et al., 2018). Recognizing the importance of financial inclusion, it offers a significant opportunity for large-scale economic growth and development. It refers to having a bank account either at an individual or entity level and is broadly defined as a form of financial development that is measured on macroeconomic dimensions like market capitalization (GDP) (Demirguc-Kunt et al., 2017).

Researchers have not reached a consensus related to the associations between financial inclusion, inequality, and macro-level growth and development, and a few books have been written and discussed on this topic (Demirguc-Kunt et al., 2017). Some research findings indicate that despite efforts to promote financial inclusion, it remains an "Unfinished agenda" that requires further attention and broader study (Junaidah Abu Seman et al., 2021). Financial inclusion-based approaches need more attention and further research accordingly. In broad terms, financial inclusion refers to the process of allocating funds towards potential businesses with the expectation of generating higher returns. It plays a pivotal role in promoting economic development, innovation activities, and increasing employment and job opportunities. Limiting investment opportunities to individuals and enterprises without adequate access to financial services and products is detrimental to economic growth.

The notion of "inclusive economic growth" involves three policy pillars that can be put into practice through effective institutional-based and good governance aspects. To achieve inclusive growth, three fundamental strategies or pillars should be established: sustained growth, social inclusion, and safety nets.⁹

2.3.1 Financial Inclusive and Investment

Investment and financial inclusion are complementary notions as well as interdependency concepts, which are creating opportunities for both businesses enterprises, and individuals to enhance sustainable economic growth and development. Financial inclusion serves to facilitate financial access to and utilization of proper services and affordable financial services, appropriate for entire groups and viable for investments like start-ups as well. In order to accelerate individuals' or business enterprises' access to basic financial services, such as bank account ownership, savings, and payment services, they can efficiently administer their funds and capital to participate in investment activities.

Meanwhile, FI improves and facilitates investment by expanding and inviting the masses to the pool of potential investors. Relying on this notion as far as individuals or business entrepreneurs have access to financial institutions, they can accompany savings, loans, or investment options to channel genuine business funds toward productive investments. Such activity not only contributes to entire economic development and growth but also benefits the entrepreneur directly involved in investment activities. So far, by generating wealth and returns, appropriate investments can uplift poor people out of poverty and enable them to join the financial ecosystem. Hopefully, as far as individuals generate more income, capital, or assets, things make it easier for them to participate in the financial industry to benefit from its products and services.

⁹ Reza Ghazal and Muhamed Zulkhibri, "Islamic Inclusive Growth Index (i-IGI): Measurement and Determinants": *Towards a Maqasid al-Shari'ah Index of Socio-Economic Development: Theory and Application*, ed. Salman Syed Ali (Switzerland: Palgrave Macmillan Press, 2019), 285-310.

To sum up, investment and financial inclusion are intertwined in one way or the other. Financial inclusion provides greater opportunities for access to financial services that enable poor people to benefit and engage in investment activities. In this manner, investment caters to and strengthens potential and productivity for economic growth and can support and uplift vulnerable communities out of poverty alleviation using FI. Employing financial inclusion means, therefore, considering the enhancement of sound investment.

2.3.2 Financial Inclusion for Entrepreneurs and Microfinance

Entrepreneurs are valuable assets to any country's economy and play an essential role in its development (Sohail & Arshed, 2022). Small and medium-sized enterprises (SMEs) and entrepreneurship¹⁰ are often used interchangeably (Lee-Ross & Lashley, 2008). They both aim to create employment, promote economic growth and development, and empower individuals and communities. Entrepreneurial ventures focus on profitability, growth, and innovation, while small-scale business owners typically start and manage businesses for personal or family needs. Although entrepreneurs strive to grow their businesses and maximize profits, their primary goal is to succeed in their ventures.

It is widely acknowledged that there are differences in culture and faith-based beliefs between Western economic worldviews and Islamic economic and financial worldviews. However, not all Western-based entrepreneurship models are inherently incorrect. To meet the needs of Islamic economics and financing for entrepreneurs, it is essential to develop alternative models that align with Shari'ah-compliant principles (Hassan, 2013; Shahrul & Bin, 2022). Besides, key characteristics of successful entrepreneurs include creativity and strategic management practices, and the United Nations Industrial Development Organization (UNIDO) emphasizes the importance of organizational differentiation in policy development and implementation. Experts suggest that recommended indicators should be observed to classify small and medium-sized enterprises (SMEs) and large companies (Abdulsaleh, 2016).

¹⁰ Howard H. Frederick et al., *Entrepreneurship: Theory/Process/Practice*, 4th Edition, 2016.

Studies suggest that Islamic banks are estimated to provide only 7% of funding to SMEs, while conventional banks are more assisting in this. While SMEs have been hesitant to approach Islamic banks in the past, there has been a recent increase in interest in Islamic financing. However, some factors still prevent SMEs from approaching financial institutions for their financial needs. Many individuals believe that religion is a hindrance to using traditional banks for financial services. Nowadays, immense efforts have been made to establish Islamic banking services for financial inclusion, which are expected to level up comprehensive financing sectors (Fakhoury, 2014).

Entrepreneurship, Islamic finance, and SMEs are all related and interchangeable terms, working towards the same objectives of increasing profits, creating jobs, and promoting robust economic growth and development for entire societies (Rasheed et al., 2018). Both the government and private sectors need to pay more attention to and take immediate action on Islamic microfinance and SMEs to achieve this goal (Er & Mutlu, 2017b; Hersi, 2018) and in previous making Islamic banking services insignificant in Ethiopia as well.

2.4 Financial Reform and Inclusion Policy in Ethiopia

Recent, financial reform in Ethiopia has created opportunities for expansion in various financial services, including formal and informal institutions. There are currently 29 banks, 45 microfinance organizations, 18 insurance institutions, 6 capital goods finance or lease organizations, 8 payment instrument issuers, and one re-insurance organization operating in the country. Three full-fledged Islamic bank institutions, Zamzam Bank and Hijra Banks have also begun their operations officially since 2021. But also, recently, Rammis Bank has started full-fledged services provision officially, beginning on June 4, 2023.¹¹ Unfortunately, only a few principal Islamic microfinance

¹¹ <https://www.islamicfinancenews.com/rammis-bank-officially-inaugurated.html>
[06.06.2023].

institutions are operating in Ethiopia, with the Somali region having a better experience and more IsMF branches than other regions.

The Findex 2014 report revealed that the saving practice of Ethiopian adults has risen to 48 percent, yet only 14 percent are kept formally at financial institutions. A similar report demonstrated that 44 percent of Ethiopian adults borrowed money, but only 7 percent borrowed it from financial institutions. The Government of Ethiopia (GoE) has recognized financial inclusion as a priority agenda in its Growth and Transformation Plan Two (GTP-II) which has been approved by the National Financial Inclusion Strategy for implementation (Bezawagaw et al., 2017). Besides, as a best practice that may be aligned with this issue, the Government of India also commenced the FI strategy, particularly on women empowerment in slums between 2014 and 2015, relying on the PMJDY scheme due to a strong correlation between FI and women empowerment high impact for policymakers (Bhatia & Singh, 2019, p. 192).

Conversely, the Ethiopian regime focused on the social protection scheme policy framework for longstanding, albeit there are no significant changes or transformations illustrated for low-income people on the ground yet. For instance, the Ministry of Labour and Social Affairs of Ethiopia's regime works to find out and to improve the policy of social protection which is aligned with poverty alleviation, social protection towards economic pain societies or risky people, financial exclusion, and vulnerable societies from the financial ecosystem at large. The National Social Protection Policy (NSPP) has five priority areas. These include enhancing safety net projects, promoting employment opportunities and increasing livelihoods, improving societal insurance, enhancing health and education, and improving community-based service facilities and accessibility. The NSPP also aims to discourage violence, mistreatment, and exploitation to improve justice and the legal framework for societal benefits (Endale et al., 2019, p. 21). Studies conducted in Ethiopia have shown that progress was made in reducing poverty between 2011 and 2019, before the COVID-19 pandemic and the eruption of conflict in the northern part of the country. A report by MPI indicator in 2022, figures out that the MPI between 2011 and 2019 went down from 0.491 to 0.367. Conversely, the percentage of people living in poverty significantly decreased from 83.5% in 2011 to 68.8% in 2019 as well. This financial statistics result addressed that

even though progress is there in Ethiopia still a huge gap in financial inclusion to alleviate poverty.

The poverty decline policy, which prioritizes productive safety nets and societal protection facilities at the local and international level for humanitarian aid, has unfortunately shown little progress due to inadequate settled standards. Fighting extreme poverty remains a challenging task, especially with globalization's impact on new trends that widen the gap between the poor and the rich, particularly in emerging countries. However, there has been progress in Ethiopia with the licensing of the operation of the IFB directives, which provides interest-free financial products and services for poverty alleviation. This approach is an alternative to relying solely on interest-based financial sectors, including MFI (SME) financing programs since 1996. Despite the financial industry's undeveloped state, Ethiopia has made continued reform endeavors regarding business development over the past two decades.

The Ethiopian regime has set a ten-year policy framework structure between 2020 to 2030, with a particular focus on homegrown economic sound policy and development frameworks prioritized mainly in agriculture, industries, mining, innovation, and ICT sectors. The goal is to achieve sustainable economic growth and development in line with scaling up a green economy referred to as a carbon-neutral or zero-carbon emissions environment (FDRE, 2020). Despite the licensing of the interest-free financial ecosystem's operation, it is crucial to support the establishment of well-organized or institution-based (centralized) ISFs such as waqf and zakat funds collection and distribution in Ethiopia. Therefore, urgent calls and responses are paramount from the public sector at federal and regional levels, the private sector, and distinguished stakeholders to create a developmental policy, and good governance aligned with Shari'ah-compliant guidance, framework, rules, regulations, and laws that will benefit society significantly by uplifting them from financial pain and extreme poverty.

2.4.1 Financial Inclusion and Ethiopian Microfinance

Small and medium-sized enterprises or the microfinance sector operations have grown faster. It has been a crucial segment in various countries since 1980 associated with poverty alleviation, economic growth, and empowerment strategies across the globe

(Hulme & Arun, 2009, p. 1). Government policies have played a significant role in promoting the financial sector's potential growth in the economy and enhancing financial inclusion for inclusive growth (Hersi, 2018; Mackie, 2015). However, some studies have shown that reaching nationally representative data to demonstrate low-income financial inclusion issues in Ethiopia can be challenging (Desalegn & Yemataw, 2017, p. 52). Today, there are numerous microfinance models available. Still, Grameen Microfinance is well-known for transforming the framework of microenterprise loans and information flow via a "Bottom-up" style relying on group formation, mainly centered around women clients (Hulme & Arun, 2009, p. 1).

Ethiopia has a rich history of inclusive finance, encompassing both formal and informal systems that provide essential services. The informal financing system includes rotating saving and credit system associations (ROSCA), also known as Iqqub, insurance programs run by groups or societies to address emergencies, known as Iddir, and traditional institutions that fulfill the financial needs of those in need, called Mahiber (B. E. D. A. Ibrahim, 2017, p. 22). Throughout a person's life, they require finance for various reasons, such as education, marriage, home-building, old age support facilities, funeral expenses, festivals, and other occasions, as well as the desire to leave an inheritance for their heirs (Hulme & Arun, 2009, p. 38). These needs and kinds of services can vary depending on the place to place associated with the socio-economic aspects and multiple cultural identities.

Ethiopian society is accustomed to financial inclusion through traditional or informal means, and the contemporary state should review its policies and regulations regarding business sectors to promote and enhance economic development strategies to achieve economic empowerment from a broader perspective. It's worth noting that the traditional financial system in Ethiopia doesn't rely on interest and Islamic financing viewpoints should pay attention to this aspect. While Ethiopia has several financial institutions, including banks, government and private sectors, development and investment-based institutions, and microfinance institutions, the number of Islamic banks and microfinance institutions is still low (Hersi, 2018). However, the

concentration of Islamic microfinance supplies is also inclined or concentrated in some countries.¹²

A study conducted in Ethiopia analyzed 32 MFIs and found that less than 20% of their customers are benefiting from their services. Additionally, other studies have shown that only 6% of rural households have received services from MFIs and that MFI loans in agriculture only make up 10%. Private Islamic banks in Ethiopia are currently selling shares to partners and opening new branches to offer Shari'ah-compliant banking services. However, the availability of Islamic microfinance institutions is limited in Ethiopia, with only a few operating. Studies demonstrate that customers benefit from MFI services less than expected, while only a small percentage of MFI loans are implemented in agriculture (B. E. D. A. Ibrahim, 2017, pp. 23–24).

In Ethiopia, Islamic microfinance emerged late in 2012 in the Somali Region States. It is owned by the Somali Regional Administration as well as some other private shareholders. After operating the microfinance endeavors to foster interest-free loans and credits for microfinance, poor communities, and entrepreneurs, and attempts to minimize poverty, enhance overall growth, and development for the well-being of the societies by extending its client service in line with conventional microfinance as well (A. S. Ali, 2020). On the other hand, based on data obtained from the National Financial Inclusion Strategy report in 2017, the number of clients who have an account in conventional microfinance services is 11.4 million in Ethiopia (NBE, 2017), but according to the description of Islamic Microfinance document not stated on the data of finance sector, the number of clients or householders who has an account in Islamic microfinance is very insignificant.

Recently, the state has become more open to Shariah-compliant financial activity. This is a positive step that will allow more members of the Muslim society to actively participate in economic activities and developmental projects within the country. This study has found that this is valuable progress. For example, research conducted in Bangladesh revealed a high demand for Islamic microfinance to tackle the issue of

¹² Rahma Hersi, *The Prospects and Challenges of IsMF in the IGAD Region* (The Horn Economic and Social Policy Institution-HESPI, 2018), 1-54.

unemployment and poverty. Previously, conventional microfinance had dominated and controlled much of society, resulting in widespread suffering. With the introduction of Islamic microfinance, a few thousand people were allowed to benefit (A. E. Ali, 2015; Askari et al., 2009).

2.4.2 Financial Inclusion and Islamic Microfinance

Islamic microfinance (IsMF) services are not widely available in many Muslim countries but can promote economic development through Islamic social financing tools like zakat, waqf, qard-hasan, and sadaqah. IsMF operates according to Shariah principles and encourages ethical and responsible financial practices that benefit society. Islamic microfinance operates according to Shariah principles, which prohibit interest (riba), uncertain business transactions (Gharar), and gambling. Instead, IsMF encourages ethical and responsible financial practices that benefit society. Microfinance institutions (MFIs) are used to provide financial access and alleviate poverty, but traditional microfinance services may exclude poor and needy individuals. Financial inclusion focuses on providing individuals and businesses with affordable financial tools to manage their finances effectively.

Islamic microfinance offers Shariah-compliant financial options to those who cannot access conventional banking or insurance. It's an alternative way to serve marginalized communities and low-income small business owners. Nowadays, Islamic microfinance institutions integrate Islamic finance models, such as shari'ah-based PLS (mudarabah and musharakah) for resource mobilization or shari'ah-compliant financing for resource utilization, such as cost-plus financing (murabahah and ijarah) associated with inclusive finance. These models provide credit, savings, and other financial services that align with ethical and moral values in particular. They also cater to individuals who exclude themselves from the conventional financial system due to religion.

To conclude, Islamic microfinance institutions prioritize socially responsible investment and robust sustainable economic growth and development, which aligns with the common goals, targets, and objectives of financial inclusion. The principles of Islamic finance promote just, equitable wealth distribution, and risk-sharing, contributing to comprehensive and inclusive sound financial economic growth. It

employs fairness, transparency, and ethical practices to support needy and poor people during difficult times, enabling them to overcome challenges and promoting responsible financial habits. The relationship between Islamic microfinance and financial inclusion is complementary, serving identical objectives.

2.4.3 The Relationship Between Islamic Microfinance and Financial Inclusion

Financial development is a crucial concept across the globe in the contemporary period. Due to the cause (lack) of financial accessibility the gap between the wealthy people and the poor as well as the developed and undeveloped countries is wider from time to time in more than doubled nowadays. Microfinance development relies on an assumption that low-income societies are excluded from the financial arena due to the existing financial ecosystem being inappropriate to them with regards to saving, credit, and insurance activities services (Hulme & Arun, 2009, p. 29). In contemporary understanding, microfinance is considered as a unique tool with potential for poverty alleviation and sustainable finance (Ledgerwood, 1999).

According to a study conducted by Demirguc-Kunt et al. in 2017, microcredit provided by Grameen Bank has proven to be beneficial for women's empowerment, leading to increased household expenses, job opportunities, access to education for children, and other advantages. Microcredit has been a crucial tool for household financing, economic growth, and development, earning the Nobel Peace Prize in 2006. Recently, there has been a shift towards accessing financial services and opening bank accounts through financial institutions. Hence, the service focus extends to insurance, particularly agricultural insurance policies at large. It is crucial to reduce the gap between the rich and the poor (Demirguc-Kunt et al., 2017). Microfinance can help alleviate poverty and encourage sustainable finance. Islamic microfinance expands financial services based on Shari'ah-compliant principles. Studies show that microcredit, especially for women's empowerment, maximizes household expenses and job opportunities. Financial services now include insurance policies, particularly for agriculture sectors.

2.4.4 Financial Inclusion and Financial Technology (Fintech)

Fintech is short for financial technology, which refers to the use of new technologies for creating and delivering financial services (Al-Daya et al., 2022, p. 17; N. Alam et al., 2021, p. 2). There are different form of definitions in line with fintech, but major of them are considered to be an innovation in financial services that leverages technology to improve financial activities (Al-Daya et al., 2022, p. 17; N. Alam et al., 2021, pp. 1–9). Eventually, some researchers have identified fintech into six areas of financial innovation in digital finance, including "digital payments, digital financing, digital investments, digital money, digital insurance, and digital financial advice" (Al-Daya et al., 2022, p. 17). Nowadays, digital payment facilities like “Payment, remittance, and mobile wallets” are widespread across African countries using fintech services (N. Alam et al., 2021, p. 228). In this context, fintech is referred to as a well-organized function of financial system integration to its model, value, and financial process as well as financial product and services in the lens of pricing, time, and credit score procedures and regulations mechanism utmost fast and efficient (Freedman, 2006, p. 1).

Fintech plays a crucial role in enabling financial institutions to obtain and utilize financial products and services in today's world (N. Alam et al., 2021, pp. 1–9), this is true in particular, in the era of a technological revolution of industry 4.0 generation (N. Alam et al., 2021, p. 223). Literature review associated with these studies has shown that fintech has a more positive relationship than regular financial services (Heng & Tok, 2022, p. 1). According to the Global Islamic Fintech Report of 2022, the market size in 2021 was estimated to be around \$79 billion, and this number is expected to increase to \$179 billion by 2026.¹³

Currently, with bold, promising, and frequent changes occurring to fostering the issue of digital services-based finance, in particular, mobile financial services in Ethiopia commenced rapidly by Ethiopia telecommunication corporations at a local level as well as international level to build the strategic partnership with Kenya (Nairobi) origin

¹³ The Global Islamic Fintech (GIFT) Index, <https://www.dinarstandard.com/post/global-islamic-fintech-report-2022> [02.05.2023].

Safaricom telecommunication company the first foreign telecommunication that is nowadays approved its license to operate in Ethiopia as well. Therefore, such milestone activities support digital payment and digital lending towards improving financial inclusion, including mobile money payment services to send and receive money, pay bills, and facilitate a cashless purchases environment, as well as assist in uplifting potential economic development and growth.

2.4.5 Integration of Financial Inclusion and Ethiopia Homegrown Economic Policy

Ethiopia government, following the previous GTP II reforms, has set a ten-year policy agenda between 2020 to 2030 for sustainable economic growth and development plan in the light of scaling up a green economy and a carbon neutral (zero emissions) economy with sound developmental under that titled as “*Ethiopia Homegrown Economic Reform Agenda: A Pathway To Prosperity*” by prioritizing agenda like agriculture, industries, mining, innovative, and ICT sectors broadly (FDRE, 2020).

As indicated in the strategic planning of the homegrown economy that is heading to alleviate poverty in half to decrease the gap between low-income and middle-income countries by different economic indicators due to catch up to the middle-income level societies until 2025 within five years including GDP per capita from \$865 to \$2,219, access to education of school enrolment of secondary by 31% to 59.4%, health access in particular for child mortality under -5 years per thousands from 58.5% to 48.5%, among others within this period. However, due to various challenges such as the Covid-19 pandemic, internal conflicts, and global crises, achieving these targets may be difficult. While the homegrown strategic plan has potential, it primarily focuses on the macro-level and disregards the meso-level and micro-level implementation needed for success in a country with a predominantly rural economy. Thus, due to some of the following reasons the policy needs to be updated to adapt to the rapidly changing global landscape for adequate outcomes. Therefore, based on the current situation that the country faces in social, economic, and political challenges and the world's rapidly changing conditions like the Ukraine and Russia wars as well as skyrocketing inflation, it is important to review the policy to enhance its implementation and effectiveness (FDRE, 2020, p. 8).

2.5 Conclusion

Financial technology (fintech) is expected to attract, connect, and integrate more than 2 billion people who are yet unbanked using breaking through the Industry 4.0 revolution into a worldwide economy relies on steering demands for existing products and services or newly emerged more. Consequently, the fintech era is not only connected to the unmet demands of those people unbanked into the global economy but also can be viable to enhance and uplift prospective economic growth as much as a possible prolog for poor people poverty alleviation on the other side as well. There are myths that if age got older individuals' motivation decreased to take risks, while they focused on asset preservation for retirement cases. This point emphasizes that older become less willing to pursue entrepreneurship accordingly. However, the technological revolution has disrupted this pattern, encouraging aging workers to leap into the entrepreneurship lane and/or track. In addition, technology allows and empowers human beings to "Work smarter rather than harder" in day-to-day activities with the help of the Industry 4.0 era as well as healthier lives than the previous nations in particular.

Section Two: The Theory of Planned Behavior

In this section, the theory of Planned Behavior overview and literature review analysis are discussed in-depth as follows:

2.6 Theory of Planned Behavior (TPB): Concept and Prospect

This section is organized, commencing with an introduction to the concept of the theory of planned behavior (TPB) in light of financial awareness, uncertainty, knowledge, and attitude towards financial inclusion to adopt IsMF services presented, and also behavioral change towards financial attitude and financial inclusion, as well as income level and financial inclusion to adopt IsMF activities, were discussed later. Last but not least, finally concluded.

2.6.1 Introduction

The Theory of Planned Behavior (TPB) was initially introduced by Icek Ajzen in 1985. It is a psychological theory that is centered on explaining and anticipating human behavior by considering the attitudes, subjective norms, and perceived behavioral control of individuals at the beginning of the study. Attitudes, subjective norms, and perceptions of control all form intentions, ultimately affecting behavior performance when combined with actual control (Ajzen et al., 2011, p. 102). Later these theories gradually started to widen among other interrelated fields as well. For instance, the study associated with "Predicting substance abuse treatment" (Zemore & Ajzen, 2014, p. 174), "Action versus inaction" (Ajzen & Sheikh, 2013, p. 155), "Understanding young people's environmental behavior" (de Leeuw et al., 2015, p. 2), "Social media networking versus TPB (Cameron et al., 2012, p. 2), and many more.

The light of TPB variables in the lens of financial; awareness, knowledge, uncertainty, behavioral change, and income level are considered independent variables and FI is a dependent variable. Additionally, the attitude variable is treated as a mediator towards the independent variables in this study. Furthermore, the study figures out some limitations that rely on dependent and independent variables in the scope of TPB. For instance, limited awareness can obstruct financial inclusion. A lack of knowledge about financial services and how to access them may lead to under-employment or avoidance of formal financial channels. In other words, awareness plays a vital role in fostering financial inclusion. Conversely, by increasing individuals' knowledge and declining uncertainty, understanding, and confidence in financial matters, its initiatives contribute to expanding access to financial services, reducing inequalities, and promoting inclusive economic growth. In this sense, the behavioral change toward financial issues and attitude toward it can be viable to improve the income level of disparity societies and foster overall economic stability at large in terms of money circulation in the economy for productive investment and project funding.

2.6.2 Definition of TPB

Historically, the theory of planned behavior (TPB) was first put forward by Icek Ajzen in 1985, which seeks to describe and predict human behavior relying on individuals' attitudes, subjective norms, and perceived behavioral control. Conversely, it has been

widely applied in different sectors such as social science and more, along with social psychology, health psychology, consumer behavior, business or marketing, and organizational behavior among many more in particular. According to the theory of planned behavior, human behavior is influenced by three key factors—attitude, subjective norms, and perceived behavioral control—that interact to frame an individual's intention or behavioral change to engage in individual behavior. Nevertheless, purposes, on the other side, are considered the immediate determinant of actual behavior. However, it is crucial to address that TPB not only focuses on intentions but also acknowledges, among others, external factors that can affect the translation of intentions into behavior.

To sum it up, TPB has confirmed that it is valuable in understanding and predicting the great potential of human behaviors in various sectors such as the health sector, education, business or financial like consumer behaviors, environment, and organizational behaviors. It provides an inclusive framework for investigating the factors that affect human decision-making behavior in designing effective interventions and strategies to enhance expected behavior. A high uncertainty can also affect the accessibility and viability of financial facilities. Conversely, pessimistic individuals in accord with attitudes may perceive financial products and services as unnecessarily risky, and unreliable activities, which limit their participation or non-inclusive financial ecosystems.

2.7 Financial Inclusion in The Light of TPB

Financial inclusion plays a crucial role in financial sectors to foster financial services and can enhance individuals' inspiration to engage with formal and informal financial institutions services like owning a bank account in order to receive proper financial services from the financial sectors. These also enhance increased financial security, improved access to credit, and opportunities for sound development and economic growth. Conversely, creating an enabling environment that fosters supportive social norms can assist in reducing and empowering individuals' potential impediments and foster financial inclusion. In this section, we focused on looking at financial inclusion, in the light of the TPB, which recognizes the significance of attitudes, uncertainty, knowledge, behavioral change, and income level, among others as long as

understanding and bringing up inclusive financial products and services, especially in individuals and groups of communities behaviors.

In the case of bringing up a holistic approach for inclusive finance as individuals and groups providing financial literacy towards capacity building and improving individual skills is extremely important, due to access to relevant financial products and services, and taking into account various barriers such as technology or documentation requirements can bolster their confidence and promote financial inclusion. Meanwhile, this study focuses on the interconnection of financial literacy (i.e., the ability to manage financial function independently (Shambare & Rugimbana, 2012, p. 582)) associated with TPB can provide a valuable framework for understanding and encouraging comprehensive services by addressing financial awareness, uncertainty, knowledge, attitudes, income level, and behavioral change, among other factors that allow different stakeholders such as policymakers, regulators, financial institutions, operators, or practitioners, and organizations to design interventions that target these key factors during the decision-making process. The factors included in this study are described below.

2.7.1 Awareness and Attitude Towards TPB to Adopt IsMF

Financial development is integrated with know-how and awareness of the business ecosystem. Besides, strategies that focus on improving financial literacy, raising awareness and knowledge about the benefits of financial inclusion, and enhancing access to affordable financial services can help create inclusive financial services and promote economic empowerment for entire societies. Several studies support this notion and an adult to open financial accounts should be aware of how to do so (Desalegn & Yemataw, 2017, p. 42). Purwanto et al. (2022), study's findings show that financial awareness serves as a positive influence on attitudes toward IsMF to benefit community principals and religious scholars. The study focused on "Empowering women through financial inclusion in an urban slum" in India in the Punjab area (Bhatia & Singh, 2019, p. 189) finding illustrates that the majority of the respondents were aware of the Pradhan Mantri Suraksha Bima Yojana (PMSBY) system, however, overall financial awareness and FL is very low among respondents.

2.7.2 Uncertainty and Attitude Towards TPB to Adopt IsMF

When there are high levels of uncertainty, it can act as an obstacle to financial inclusion. It can also have a positive or negative impact on financial inclusion. Conversely, there is an inverse relationship between financial uncertainty and attitude (S. Aziz & Afaq, 2018, p. 11). Consequently, Aziz and Afaq's (2018) study revealed that financial attitudes promote Islamic banking adoption relying on the customer intention, while the uncertainty of the customers is targeted to increase positive financial attitude in the customer.

In addition, uncertainty can have an impact on financial accessibility and viability. Besides, uncertainty can also influence personal financial decision-making behavior. During such situations, a person may prioritize temporary financial benefits over essential ones for long-term financial stability and growth. This behavior can lead to reduced engagement with savings, investment, and credit products. In such circumstances, individuals or businessmen may choose to remain outside due to the predictability of market stability and security being unknown, which may lead to higher risk. On the other hand, a stable economic and regulatory setting can boost robust financial inclusion by providing individuals and business entities with the confidence and assurance necessary conditions to participate in formal financial systems. When the uncertainty becomes lower, people not only engage with financial institutions, but also make long-term financial decisions, and utilize further financial products and services widely.

2.7.3 Knowledge and Attitude Towards TPB to Adopt IsMF

Throughout human history, several studies revealed various definitions of knowledge. For instance, according to Merriam-Webster (2020) dictionary, knowledge refers to *“The fact of knowing something with familiarity gained through experience or association.”* In other studies, knowledge is explained as a feeling or a genuine thought toward something in general (Hadji Latif, 2021, p. 173). Furthermore, the knowledge concept is defined as awareness, understanding, and information individuals possess about financial conception including financial products and services. In this study, thus, knowledge approached and served as a notion of the financial entities. Therefore, it is an ability of habitats towards participating in

inclusive finance through Islamic economics and finance, particularly in IsMF relying on shari'ah principles and ruling in its operation and practices.

Due to regard, knowledge is acquired in numerous ways. For example, training is one form of the knowledge-obtaining method, particularly in onsite practices for short periods, or proper training for long periods plays an essential role in improving performance and work efficiency, broadly, various studies' outcomes revealed that knowledge plays a vital role in improving financial inclusion. In other words, when individuals have a better knowledge of financial concepts, products, and services, they are more likely to engage in business activities, make better financial decisions, and utilize proper financial instruments or models. In this manner, the knowledge of individuals to use effective financial options increases and they also take advantage of available resources i.e., leading to the utmost utilization of financial inclusion. Therefore, a finding of the studies conducted by (Ozdemir et al., 2023, p. 2) in Türkiye demonstrates that the microfinance program has served as a capacity-building tool to enhance the knowledge of beneficiaries via training and such activities change society positively.

Consequently, the study conducted in Malaysia relying on SMEs' financial performance findings revealed that financial knowledge influences positively and has statistical significance toward attitude (Abdul Razak & Amin, 2020, p. 8). A study conducted in Ethiopia in line with financial inclusion shows that an individual financial knowledge increases the chance of opening an account in a formal institution by 25.4 percent proportion and also, whereas several young respondents indicate that it is their main barrier the lack of know-how on how to open an account that is associated with financial knowledge issues (Desalegn & Yemataw, 2017, p. 49). Moreover, they understand the concepts of financial risks, contribute to higher levels of financial inclusion, and benefit from its rewards as well as protect themselves against risk to reduce fraudulent schemes.

2.7.4 Behavioral Change and Attitude Towards TPB to Adopt IsMF

The term "Behavior" has numerous meanings based on various sources and methods. The Cambridge Dictionary defines behavior terms as "The way that someone behaves or a particular way of acting." However, in Merriam-Webster's, it is described as "The

manner of conducting or how someone conducts oneself'. On the other side, the term behavior is associated with the term "Intention", while it is defined by the Cambridge Dictionary as "Something that you want and plans to do", and, in Marriam-Webster's intention means " A determination to act in a certain way." In this study, thus, the terms "Behavior" and "Intention" are utilized interchangeably which refers to the change in behavioral attitudes and intentions of individuals toward Islamic financing. Specifically, it relates to their willingness to use Shari'ah-compliant financing in accordance with Islamic law or shari'ah ruling and principles for the provision of various products and services.

Past to present various studies' outcome shows that there is a relationship between attitude and behavior. Both are important tools for choosing and utilizing financial products. And also, influences FL and financial welfare (OECD/INFE, 2018, p. 4). Some studies revealed that if IsMF users believe that IsMF products and services are viable it has been influencing their quality of life and positively impacting their attitudes as well. Consequently, other studies also confirmed that attitudes have a positive influence on behavioral change or intention (A. Abdullahi & Othman, 2021, p. 490; Purwanto et al., 2022, p. 4).

Research conducted by Abdullahi and Othman (2021, p. 496) found that financial attitudes have a positive impact on the adoption of Islamic microfinance services (IsMF). Confirmatory factor analysis, path analysis, and systematic equation modeling (CFA-SEM) indicated a statistically significant relationship between financial attitudes and behavioral change toward IsMF services. This finding is consistent with other studies, such as those conducted by Aziz and Afaq (2018) in Pakistan and Purwanto et al. (2022) in Indonesia.

In summary, having a positive attitude towards financial inclusion can greatly increase its impact. Optimistic attitudes can promote greater participation and transformation in formal and informal financial sectors, while negative attitudes can hinder financial inclusion. Empowering financial inclusion through training, awareness, and improved accessibility can positively impact individuals and groups, improving their societal attitudes toward financial engagement.

2.7.5 Behavioral Change and Financial Inclusion to Adopt IsMF

Primarily, individuals' choices and actions crucially influence their degree of engagement towards financial systems affiliated with behavioral change is a critical determinant of financial inclusion in their ability to make good decisions to access and utilize financial products and services aptly. To improve FI it requires individuals' behaviors should be related to sound financial decision-making, spending properly, planning, and saving effectively.

Positive or effective behavioral changes including adopting savings behavior, carrying out impactful borrowing habits, and appealing to outstanding long-duration financial planning, can contribute to enhanced financial inclusion. During individuals actively endeavor to align their habits with financial goals, aims, and objectives, they are more probably to utilize formal or informal financial services, create and maintain bank account ownerships, and access loans, investment options, and insurance businesses. Noticeably, individuals can be viable by increasing responsible financial habits, improving their financial stability, and maximizing their promising and possible sound economic growth and development advantage (A. Abdullahi & Othman, 2021, p. 487).

Besides, some pessimistic/negative habits can be barriers to financial inclusion. For instance, to mention a few, an individual's or some others' behaviors change aligned with such “Improper debt accumulation, insufficient budgeting problems, or depending densely on informal financial mechanisms can delay individuals' or others' financial participation.” With due respect, such habits' outcomes may result in hindered access to loans, borrowing, and a rise in vulnerability to financial trauma or collapse.

Notably, it's important to note that behavioral change and financial inclusion have a strong and mutually beneficial relationship. Financial inclusion efforts often focus on promoting positive behavioral changes through education and training (A. Abdullahi & Othman, 2021, p. 492). Improving financial knowledge and skills can lead to better decision-making and habits, which in turn improves financial security and increases savings. This can also lead to increased access to funding and more impactful business actions. Ultimately, behavioral change towards financial inclusion plays a vital role in increasing access to financial products and services, as well as engagement with formal

and informal financial systems. However, limiting access to formal financial mechanisms and negative behaviors can hinder financial inclusion efforts.

2.7.6 Income and Financial Inclusion to Adopt IsMF

Microfinance program is suited to improve poor people or low-income livelihoods and reduce poverty (Ozdemir et al., 2023, pp. 2–3). According to a study employed by (Bhatia & Singh, 2019, p. 191) women who are viable to access financing services such as bank accounts and insurance have improved their social, political, and economic status. Similarly, (Pal et al., 2022, p. 297) referred to women's empowerment as being strengthened by their ability as far as to obtain and control further financial resources. In this viewpoint, a variety of study findings revealed that the relationship between income level is a significant determinant of financial inclusion, due to the reason that individuals' financial capabilities and resources directly influence individuals' access to and utilization of financial products and services broadly. In other sayings, the degree of income level determines and plays a significant role in individuals' behavior toward saving, investing options, accessing credit, and participating in commercial business activities.

In this context, individuals with limited income generation face more challenges in meeting their basic needs and these limited funds available also may delay their decision toward savings or investment. On the other hand, while they cannot access funds from formal institutions, which further restricts their financial inclusion, they are also more likely to rely on informal financial systems, such as borrowing from relatives (friends or family), using informal savings groups, or practicing cash-based business transactions. It is crucial to reiterate or to note that while income level is a pivotal factor, financial inclusion is not solely determined by income, but also by numerous other factors of financial literacy including financial awareness, financial knowledge, financial uncertainty, financial attitude, financial behavior enhance access to financial services and individuals' financial inclusion cultural norms as well as a policy framework and regulations also play great role irrespective of individual income level.

An income degree plays a significant position in deciding financial inclusion design. More income allows individuals or others to make better decisions towards the

utilization of financial products and services, while fewer income degree options can impede financial inclusion. Likewise, financial inclusion drives the diverse needs of individuals across income levels to ensure that everyone has the opportunity to participate in and take advantage of financial services benefits.

2.8 Conclusion

Financial development is integrated with know-how and awareness of the business ecosystem aspect. Several studies support this notion and an adult to open financial accounts should be aware of how to do it (Desalegn & Yemataw, 2017, p. 42). A study employed by Purwanto et al. (2022), finding shows that financial awareness serves as a positive influence on attitudes toward IsMF to benefit community principals and religious scholars. The study employed by (Bhatia & Singh, 2019, p. 189), in India for financial inclusion in the Punjab area concluded that the majority of women's awareness is high. With due regard, awareness plays a vital role in enhancing and promoting financial inclusion, and also it has a significant relationship with financial development. When individuals are aware of various financial products and services, options they are more likely to use these services to boost their financial well-being. Financial inclusion refers to the accessibility and utilization of financial services by individuals, groups of people, or businesses, regardless of their socioeconomic status. On the other hand, awareness refers to the knowledge and understanding of financial products, services, and opportunities available in the market.

This study further develops the theoretical framework of TPB to incorporate financial inclusion and the use of IsMF to enhance the economic growth of impoverished individuals. To achieve this, it is essential to analyze the financial skills and capacity building of low-income or poor communities. Thus, the study implements a dynamic-based approach that promotes financial inclusion for inclusive growth. Ethiopia has struggled with financial exclusion due to religious issues for decades (Hailu & Yattoo, 2021, p. 8; Oumer, 2021, p. 38). For example, many individuals cite religious reasons for not using bank accounts in the past (Er & Mutlu, 2017a; Hersi, 2018; Iqbal & Mirakhor, 2013). Additionally, there are gaps in accessibility to financial services due to factors such as gender, religion, and distance, in both urban and rural areas. These issues must be addressed to foster financial inclusion.

CHAPTER III

ISLAMIC MICROFINANCE

3.1 An Overview of Islamic Microfinance (IsMF)

The term microfinance refers to a financing practice that involves providing small loans to beneficiaries without requiring collateral. This is done by collecting small savings deposits (Tamann et al., 2014). Islamic microfinance, on the other hand, involves providing financial products and services that comply with Islamic law and principles. This is known as "Shari'ah-compliant" and is in line with ethical, moral, and social solidarity for people with financial limitations in social capital (Hersi, 2018; Tamann et al., 2014). Nowadays, social capital is seen as a form of financial capital network that benefits society as a whole (Ng et al., 2015, p. 5). Similarly, Islamic microfinance is a form of financial institution that has the potential to mobilize and allocate resources from crowds through crowdfunding tools to promote inclusive economic growth and development.

Despite all, the IsMF industry asset distribution is very few in Africa when it is compared to the other regions such as the Middle East and GCC, and among the other counterpart systems. The OIC report of the 2012 outlook series revealed that shari'ah-based asset distribution has been only 1% in Sub-Sahara Africa (SSA), whereas it was 40% in GCC countries in 2011 (Hersi, 2018). SSA is a highly marginalized regional state related to economic issues, particularly in the IGAD region due to being highly affected by conflict, food insecurity, economic instability, and fragility for decades at large (Hersi, 2018).

This chapter is structured in the following manner: it begins with an overview of IsMF and then defines it. It then delves into Ethiopia's financial industry and microfinance specifically. The literature review analyzes the significance, model, and services offered by microfinance. Additionally, the relationship between microfinance and entrepreneurship, as well as the demand and supply of microfinance, both conventional and IsMF, are highlighted. Finally, the chapter concludes.

3.2. An Overview of Ethiopia's Financial Industry

The Ethiopian financial sector development has grown rapidly faster than over the last decades. In this section, we discussed the inclusive financial development in Ethiopia, from the viewpoint of the research objectives and we also analyzed and evaluated the research hypotheses at large, and then concluded.

3.2.1. Ethiopia Demographic and Economic Outlook

Ethiopia's total land area covers 1.14 million square kilometers, which includes 15.2 million hectares of area arable land and 2,900 million areas of total land which is irrigated agricultural land. However, the per percent of the forest land area is missed in this report (NBE, 2021a).

Table 3.1: Geography and Demographics 2021

Geography, Indicators	Value (million)	Demographics, Indicators	Value (million)
Land Area (km sq, 2021)	1.14	Total Population	101.5
Arable Land area(% of land Area)	15.2	Total Population	48.06 **
Agriculture area(% of land area)	*	% of total population ages 15-64	56.9 **
Irrigation area as (% of land area)	2,900	% of the total population ages 65 and above	6.84**
Forest areas (% of land area)	*	Population density (people per sq. km of land area)	*121.5 (2015)
Muslim, population	***	Working Age population	
		Population, urban	*10.1 (2019)
		Population, rural	*49.8 (2019)
		Total	*59.9 (2019)

Source: NBE, (2020/2021 report)

Notes: * data missed in the National Bank of Ethiopia on the 2020/2021 report.

**data source from World Bank Indicator, 31,12,2022.

3.2.2 Financial Development in Ethiopia

Currently, Ethiopia's financial industry is experiencing significant growth in its banking services sector. According to the Ethiopia National Bank, financial providers and service render firms can be classified into six categories. These categories include 29 banks (2 public and 27 private), 18 insurance companies (one public and 17 private), 45 microfinance institutions, 6 capital goods finance/lease companies, 8 payment instrument insurers/system operators, and one reinsurance firm.¹⁴

At the end of the year 2022, nine new banks were licensed to operate banking services across the country. Two of these banks are full-fledged or Shari'ah-compliant based on Islamic principles service providers, Raamis Bank s.c and Shabelle Bank s.c whereas, Raammis Bank S.C was late into the market operation in 2023. Conversely, the other banks are conventional banks of “Goh Betoch Bank S.C, Siinqee Bank S.C, Ahadu Bank S.C, Tseday Bak S.C, Amhara Bank S.C, Gadaa Bank S.C, and Sidama S.C” licensed and commenced operation at the same year 2022. Additionally, after a decade of waiting, Ethiopia has opened up its financial industry doors to foreign-based financial institutions and Ethiopia-born financial institutions that hold other countries' citizenship (passport) through equity investment, as outlined in bank business directive No.SBB/73/2020.¹⁵

In contemporary times, the government of the Federal Democratic Republic of Ethiopia (FDRE) is comprised of 10 regional states and two city administrations, as per the federal government's policy system for administration issues. Additionally, all regional states have microfinance institutions that are directly financed by regional and federal state financial support. Out of the whole operated microfinance in the country, the twelve largest and most public-based microfinance institutions are managed and controlled by the regional state administration. The remaining microfinance institutions are small in volume and mainly private-based, which is emerging

¹⁴ See, <https://nbe.gov.et/> [24.06.2023].

¹⁵ See, <https://nbebank.com/wpcontent/uploads/pdf/directives/bankingbusiness/SBB-73-2020%20Manner%20of%20Equity%20Investment.pdf> [24.06.2023].

nowadays. So far, numerous private microfinance entities have been found in Addis Ababa, which is the capital city.

3.2.3 Ethiopia Microfinance Development

Historically, Ethiopia's microfinance institution operated under the law of the National Bank of Ethiopia in early 1996 by directive No. MFI/01/1996¹⁶ (NBE, 2013). Throughout the times' microfinance business has been improving with various amendments such as directive no. MFI/02/1996 related to contribution in kind, directive no. MFI/07/1996 relies on a number of branches, directive no. MFI/14/2002 related to penalty for failure, directive no. MFI/15/2002 minimum liquidity requirement, directive no. MFI/21/2012 requirements for persons with significant influence, directive no. MFI/23/2013 requirement for licensing and renewal issue of microfinance business, directive no. MFI/29/2017 interest rates were applicable for microfinancing, and directive no. MFI/32/2021 licensing and authorization of interest-free microfinancing has been approved by the National Bank of Ethiopia to create and facilitate a suitable environment accordingly.¹⁷

¹⁶ “Licensing and Supervision of the Business of Micro-financing Institutions Minimum paid up Capital and Information Required from Applicant, Directive No. MFI/01/1996.” NBE. See also, Licensing and Supervision of the Business of Micro-financing Institutions, Directive No. MFI/15/2002. <https://nbe.gov.et/microfinance-business-directives/>

¹⁷ “Licensing and authorizing of interest-free microfinancing business directive no. MFI/32/2021”, NBE, (August 25, 2021): 1-4.

Table 3.2: Microfinance Institutions in Number of MSEs, Amount of Credit and Jobs Created Via Regional (Credit Amount in Million of Birr)

Region	Number of MSEs		Amounts of Credit		Number of Employment	
	Number	Share(%)	Number	Share(%)	Number	Share(%)
Addis Ababa	7 .667	6.7	1,292	25.7	35,740	6.1
Oromia	45 .989	39.9	1,105	22	289,015	49.4
SNNPR	8 .264	7.2	588	11.7	66,376	11.3
Amhara	39 .699	34.5	1,705	34	121,970	20.8
Sidama	7 .468	6.5	120	2.4	37,347	6.4
Dire Dawa	492	0.4	120	2.4	1,810	0.3
Harari	291	0.3	20	0.4	810	0.1
Benishangul	429	0.4	3	0.1	2,128	0.4
Somali	3 .480	3	61	1.2	16,220	2.8
Gambela	1 .131	1	3	0.1	5,119	0.9
Tigray						
Afar	290	0,3			8,584	1.5
Total	115 .200	100	5,016	100	585,119	100

Source: NBE Annual Report of 2020/21

Most small businesses offer services in traditional business practices, but some also offer services in interest-free modes such as Oromia Credit & Saving s.c (OCSCCO), Dire Microfinance (DMI), and Somali Microfinance Institution (SMFI). These interest-free microfinance services use Murabaha financing for individual, association,

and group-based credit techniques. The loan terms range from 1 to 5 years with a minimum collateral requirement, and they utilize a markup interest form (A. S. Ali, 2020).

3.3 Definition and Concept of Microfinance

Broadly, microfinance commenced around 1980 through a developmental cooperative program to support poor communities in their business activities. In developed countries, the German country is the best example regarding the development of cooperative activities via microfinance (Ingrid Matthäus Maier & Pischke, 2006). In contemporary times microfinance was established in the 1980s in Bangladesh by Mohammad Yunus, whereas microfinance services mainly focused on small credit (loans), small deposits (saving), training programs on financial literacy, and commercial business activities at large (Shifa & Fuller, 2022, p. 1271).

According to A. Ibrahim (2021), the studies focus on Microfinance recommended for both countries, Sudan and Ethiopia, as they took a lesson from each other, whereas the former took a lesson from the Association of Ethiopia Microfinance Institutions (AEMFI) basis on how to establish sound microfinance institutions in Sudan, and also the later take a lesson of how to operate adequate Islamic/Shari'ah-compliant microfinance to practices in Ethiopian as well.¹⁸

The definition of small business is still confusing due to the reason that there is no standardized form of definition that exists across the globe. For instance, the USA-based, Small Business Administration (SBA)¹⁹ defines a small enterprise as “A company that generates a maximum annual revenue of \$750,000 and a maximum workforce of 100 to determine whether the business is small or otherwise” (Green, 2014).

¹⁸ Badr El Din A. Ibrahim, *Microfinance in Sudan and Ethiopia, Journal of Islamic Banking and Finance*, (August 27th, 2021).

¹⁹ Charles H. Green, *Bankers Guide to New Small Business Finance: Venture Deals, Crowdfunding, Private Equity, and Technology* (Publisher: Wiley Finance, 1st ed, (2014), 3.

3.3.1 Definition of Small Size Businesses and Their Social-Economic Impact

Small and medium enterprises (SMEs) have varying definitions across different countries and continents (Aderemi & Ishak, 2020). There is no single comprehensive feature that describes the SME sector due to this reason. Therefore, the definitions for small and medium businesses depend on multiple sources. Some countries use the number of employees as the main criterion, while others use the value of assets and turnover (Abdulsaleh, 2016; Aderemi & Ishak, 2020; Hasan & Ahmad, 2020a; Rasheed et al., 2018). Commonly used criteria include the number of employees, net assets, total sales, and investment (Abdulsaleh, 2016; Rasheed et al., 2018). However, there is variation in defining the upper and lower size limits of SMEs, even when the number of employees is the only criterion. Governments, international organizations, and national statistical institutions use either qualitative or quantitative approaches to distinguish SMEs from other enterprises (Abdulsaleh, 2016).

Banks define SMEs based on annual turnover, credit size, employment size, and entire revenues generated by the organization. Most microfinance institutions (MFIs) use the number of employees as a criterion, but some also categorize SMEs by turnover and loan size. As a result, records of medium enterprises are often combined with those of small-scale enterprises in SME documents, and medium enterprises are not defined by financial organizations (WorldBank, 2015). In Ethiopia, the SME Development and Strategy Agency defines small-scale industry into two categories micro and small (Gazet, 2011), whereas medium enterprises are missed as shown in Table 3.3.

Table 3.3: The Definitions of SMEs, by SME Development Agency in Ethiopia

Firm size	Secor	Number of employees	Whole assets
Micro	Firms/service	<5	<\$6,000 (100,000 birr)
			<\$3,000 (50,000 birr)
Small	Firms/service	<6- 30	<\$90,000 (1.5million birr)
			<\$45,000 (500,000 birr)

Source: Federal SME Development Agency, 2011

According to (OECD, 2004), International-level reviews, such as those presented in Tables 3.4-3.6, show that SMEs reflect not only the economic status of a country but also its social and cultural dimensions.

Table 3.4: Definition of SMEs in MENA Region by Employment

Country	Micro	Small	Medium
Egypt	1-5	6-10	11-100
Lebanon	1-9	10-49	50-99
Jordan	1-4	5-19	20-99
UAE	1-4	5-49	50-499
Tunisia	1-9	10-49	50-249
Oman	1-5	6-20	21-100
Saudi-Arabia	1-9	10-59	60-199

Source: IFC (2010), Abdulsaleh 2016

According to the European Commission, micro, small, and medium enterprises are classified based on the number of workers, with at least 250 workers required for the medium category, and an annual income of €50 million (Aderemi & Ishak, 2020).

Table 3.5: Definition of SMEs by The European Union

Firm size	Numbers of employees	Turnover €	Balance sheet €
Medium	<250	<€50 million	<€43 million
Micro	<10	<€2 million	<=€2 million
Small	<50	<€ 10 million	<=€10 million

Source: European Commission, 2009

The World Bank's definition of SMEs requires that they should meet at least two out of three requirements criteria mentioned as follows: the size of employees, entire assets, or total annual sales, to be classified as small or medium.

Table 3.6: Definition of SMEs by World Bank

Sector	Numbers of employees	Annual sales \$
Manufacturing	<50	<\$ 3 million
Wholesale	<300	<\$ 15 million

Source: IFC (2010), Abdulsaleh 2016

3.4 The Empirical Relationship Between Islamic Microfinance and Financial Inclusion

It has been found that the percentage of Ethiopians holding bank accounts at formal financial institutions is notably low at 33.4%, in comparison to the total population of over 120 million. Moreover, less than 25% of adults obtain loans or credit facilities from financial institutions, with even lower percentages in comparison with countries like Uganda, Nigeria, Pakistan, Sierra Leone, Guinea, Afghanistan, and Chad, which is less than 30% per 1,000 adults (Shaikh et al., 2015). Additionally, less than 2% of adults in Ethiopia obtain loans or credit facilities from Islamic microfinance institutions. Even though the number of households obtaining financial services from Islamic microfinance has increased since its inception in the Somali region, it is not economically significant.

Recent studies reveal that Christians are more likely to have a bank account and use it for saving than Muslims, with 25 percent and 13 percent respectively (Desalegn & Yemataw, 2017, p. 42). Similarly, the proportion of adults in *the account using for saving* (using their account to save) also indicates higher for Christians over Muslims an estimated, 23 percent & 9 percent respectively. The above-mentioned statistics show that a Muslim society participates in the existing financial services system much less than the Christian community. This highlights the need for policymakers and the finance sector to take inclusive measures to reduce the gap and improve such

shortcomings as the barriers hindering financial inclusion (Desalegn & Yemataw, 2017, p. 44).

In 2017, the National Financial Inclusion Strategy of Ethiopia reported 18 conventional banks (2 state-owned and 16 private), 35 microfinance institutions, 17 insurance companies, and 5 capital goods lease companies. Additionally, there were 18,000 Savings & Credit Cooperatives, 30.7 million transaction accounts, and an average of 68 accounts per 100 adults. However, only 22% of adults used their accounts to purchase through formal financial institutions. Furthermore, the percentage of adults over 15 years of age who have an account at a financial institution is only 22.79%, with no mobile money usage. These numbers are significantly lower than the average for Sub-Saharan African countries in 2014, which were 28.9% and 11.5%, respectively (NBE, 2017). As of today, there has been a significant increase in the number of financial institutions, with the banking industry reaching almost thirty-two and MFIs exceeding forty-five. This highlights the growing demand for access to financial services, which can be addressed through a hybrid approach that combines fintech and digitalization.

3.5 Ethiopian Microfinance Institutions Legal Reforms

Ethiopia's microfinance institution operated under the National Bank of Ethiopia directive No. MFI/01/1996 since established²⁰ (NBE, 2013). Through time the microfinance business was getting through improvement of various amendments. For instance; directive no. MFI/02/1996 related to contribution in kind, directive no. MFI/07/1996 based on a number of branches, directive no. MFI/14/2002 related to penalty for failure according to NBE regulation, directive no. MFI/15/2002 minimum liquidity requirement, directive no. MFI/21/2012 requirements for persons with significant influence, directive no. MFI/23/2013 requirement for licensing and renewal issue of microfinance business, directive no. MFI/29/2017 interest rates were applicable for microfinancing, and directive no. MFI/32/2021 licensing and

²⁰ “Directive No. MFI/01/1996”, NBE.

authorization of interest-free microfinancing has been approved by the National Bank of Ethiopia to create and facilitate a suitable environment accordingly.²¹

The National Bank of Ethiopia (NBE) follows the guidelines outlined in Article 14(2 and e) and Article 34(2) of Business Proclamation No. 626/2009, which was modified by Proclamation No. 1164/2019.²² Directive no. MFI/32/2021 has approved the licensing of interest-free MFI to operate relies on shari’ah rulings and promote Islamic social financing. This decision has been positively received by stakeholders who are eager for it, as it is expected to improve financial inclusion for a wider segment of the population.

Table 3.7: Microfinance Regulations and Licensing Directives in Ethiopia

No	Years	Directives or Proclamation Numbers	Subject (Title)	Authorizer
1	1996	No.MFI/01/1996	Minimum Capital Requirements directives	NBE
2	1996	No.MFI/02/1996	Contribution in Kind Directives	NBE
3	1996	No.MFI/07/1996	Branches directives	NBE
4	2002	No.MFI/15/2002	Minimum Liquidity Requirements directives	NBE
5	2009	No. 626/2009	Micro Financing Business Proclamation	Federal Negarit Gazeta FDRE
6	2012	No.MFI/21/2012	Requirements for Persons with Significant Influence in a Microfinance Institution Directives	NBE

²¹ “Directive No. MFI/32/2021”, NBE.

²² <https://nbe.gov.et/proclamation-microfinance-business/> [<https://nbebank.com/wp-content/uploads/pdf/directives/microfinancebusiness/scan0024.pdf>] [10.06.2023].

7	2012	No.MFI/12/2012	Manner of Financial and Operational Information Reporting directives	NBE
8	2013	No.MFI/23/2013	Requirements for Licensing and Renewal of Microfinance Business Directives	NBE
9	2013	No.MFI/24/2013	Investment in Equities of Allied Activities directives	NBE
10	2014	No.MFI/23/2014	Fraud Monitoring	NBE
11	2016	No.MFI/28/2016	Limit on Loans, Repayment period, and provisioning Requirement directives	NBE
12	2017	No.MFI/29/2017	Interest Rates Applicable to Micro Financing Institutions directives	NBE
13	2020	No.MFI-31/2020	Risk Based on Internal Audit directives	NBE
14	2020	FIS/02/2020	Use of Agents	
15	2020	No. MFI-30-2020	Equity Investment by FNEO directives	NBE
16	2020	SMIB/3/2020	Licensing, License Renewal, and Product Approval Directive	NBE
17	2021	FIS/04/2021	Requirement for Undertaking Account-Based Transactions and Ensuring Regulatory Limits Directive	NBE
18	2021	No.MFI/32/2021	Licensing and Authorization of Interest-Free Microfinancing Business Directives	NBE
19	2022	No.MFI/33/2022	Requirements for Information Technology (IT) Management of Microfinance Institution Directives	NBE
20	2022	CGFB/13/2022 No.MFI/33/2022	Licensing, Credit Information, and Examination Fees of Capital Goods Finance Companies Directive	NBE
21	2022	No. MFI/34/2022	Licensing, Credit Information, and Examination Fees of Microfinance Institutions Directive	NBE

22	2023	No. MFI-36-2023	Minimum Paid-up Capital and Capital Adequacy Requirement (3rd replacement) directives	NBE
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Source: Data collected January 24, 2023, by Authors rely on the NBE Website.

Over time, Ethiopia's financial sector has gradually developed. During the socialist regime, credit systems for industry and agriculture created financial repression. However, after the market was liberalized and deregulated, private banks and MFIs were allowed, leading to financial inclusion in the mid-1990s. Proclamation No. 84/1994 enabled the private sector in Ethiopia to participate in banking and insurance, while Proclamation No. 40/1996 paved the way for the establishment of MFIs (S. Ali & Alemu, 2018, p. 309). This remarked a new era for the Ethiopia financial sector to profiteering an inclusive financial industry (Alemu, 2016) and the government played a great role in reforming profitmaking activities or income-generating investment and robust entrepreneurs' activities for promoting small-scale business (S. Ali & Alemu, 2018, p. 308). The recent amendment of Proclamation No. SBB/78/2021 provides further guidance for existing banks, banks under formation, newly emerging banks, and microfinance institutions seeking to become licensed as banks, in their pursuit of financial inclusion (NBE, 2021c).²³ Eventually, the historical development of “Islamic finance and banking”²⁴ is not well developed while it has been emerging in the African continent recently (Muhammad Al Amine, 2016, p. 1).

²³ “*Minimum Capital Requirement for Banks (Amended) Directive No. SBB/78/2021*”:

[<https://chilot.me/2021/05/24/minimum-capital-requirement-for-banks-amended-directive-no-sbb-78-2021/>]

²⁴ Muhammad Al Bahir Muhammad Al Amine, *Islamic Finance and Africa's Economic Resurgence: Promoting Diverse and Localized Investment* (Palgrave Macmillan, 2016), 1.

3.5.1 Conventional Microfinance in Ethiopia

Several resources argue that Small and medium-sized enterprises (SMEs) are to have a positive impact on employment, GDP growth, sustainability, economic empowerment, and development in both developing and developed countries. SMEs account is eligible for 57.8% of newly created jobs, and it is also expected to create over 600 million jobs by 2030 globally (Aderemi & Ishak, 2020; Hassan, 2013).

In Ethiopia, there have been 32 microfinance institutions according to the NBE report (2015a), and this number will exceed 45 by 2023. Banking and insurance institutes have generated a total capital of 30.2 billion, while microfinance has mobilized savings deposits of 13 billion (Atnafu, 2015; Mackie, 2015). The number of bank branches in Addis Ababa has increased by 21%, and insurance company branches by 53%. Microfinance mainly operates in regional states, such as Oromia, Amhara, Dedebeit, Omo, and Addis Credit and Saving Institutes, which are supported by the government.²⁵

3.5.2 Conventional Microfinance Tools or Instruments

In 2006, a conference in Brazil, in partnership with the OECD, addressed the topic of "The SME Financing Gap Volume II." The conference aimed to discuss the issue of better financing for entrepreneurship and SME growth. Over 70 countries participated in the conference, and the discussions revealed various gaps and challenges related to SME financing across the globe (OECD, 2007). Unfortunately, SMEs face numerous challenges and hindrances, such as a lack of expert personnel, high costs of operation and expenses, legal and regulatory issues, insufficient access to technology, and inadequate information sharing between organizations. Additionally, there is a lack of market and product standardization, and high financial illiteracy for clients and staff (Hassan, 2013). A study conducted on MFI found that as the microfinance sector

²⁵ Mackie et al., *Geography and Planning Microfinance and Poverty Alleviation in Ethiopia* (June- 2015), 5.

grows rapidly, problems of "Poor management and inadequate corporate governance" also arise (Hulme & Arun, 2009, p. 2).

3.5.3 The Islamic Microfinance Development in Ethiopia

In 2021 in Ethiopia, a new chapter began under the interest-free-financing rule of the microfinancing (i.e., Islamic Banking and Islamic microfinance) system with new directive no. MFI/32/2021 (NBE, 2021b). Nowadays, four full-fledged IBs, two IsMF, and twenty-one IFBs operating via window services are operating in Ethiopia.²⁶ The Islamic finance market in this region is in its infancy with limited shari'ah-compliant products and services compared to the other worlds like the Middle East and GCC countries in particular. Conversely, the "Capital Ethiopia" newsletter reported that based on IFB services 171 billion birr cumulative savings from 15.6 million depositors in the financial industry, which is only 39.36% (68.6 billion birr) is utilized and that is estimated about 60% of the fund collected or mobilized is still idle or not fully financed by citing the NBE governor due to some shortcoming and the limitations i.e., lack of a viable model to finance and among others.²⁷

Hence, Ethiopia is very late in order to operate IsMF when we compare it with neighboring Sudan and the other world. Therefore, Islamic microfinance is a new dimension and emerging segment in Ethiopia, whereas since 2012 only one full-fledged Islamic microfinance operated in Somali regional states (which nowadays is converted to a full-fledged banking system under the name of "Shabelle Banks S.C" in 2022), as well as few were operated as a form of interest-free window services such as OCSSCO, and HMFI, DMI, and RMFI (A. S. Ali, 2020). Moreover, some studies conducted on Islamic finance associated with the role of Islamic financial product innovation and financial exclusion (Hailu et al., 2018), current status, prospects, and challenges of Islamic finance (Hailu & Yattoo, 2021) and few IsMF research conducted

²⁶ <https://www.capitalethiopia.com/2023/06/19/central-bank-deploys-regulatory-sandbox-to-expand-financial-sector/> [20.06.2023].

²⁷ <https://www.capitalethiopia.com/2023/06/19/central-bank-deploys-regulatory-sandbox-to-expand-financial-sector/> [20.06.2023].

on performance and its implication (A. S. Ali, 2020), in Ethiopia. However, in contemporary situations, Islamic financing services carried out through banks have been in good progress using interest-free window systems as well as a few full-fledged banking services sectors. However, none of the studies were carried out in line with the new model that can be suited to operate and an alternative resource mobilizing instruments in Ethiopia yet unless this study.

Broadly, immense studies were conducted associated with such as Islamic microfinance leveraging toward financial inclusion in Türkiye (Ozdemir et al., 2023), economic empowerment study in Tunisia (Zitouni & Ben Jedidia, 2022), Islamic microfinance services towards “performance and implications in the light of financial development and poverty reduction in Ethiopia” (A. S. Ali, 2020), and role of Islamic social finance in the light of Covid-19 in Nigeria and Indonesia respectively (Abdulkareem et al., 2022; Ascarya, 2022), Islamic microfinance through Fintech (Ascarya & Sakti, 2022; Shaikh, 2021), examining Islamic microfinance via takaful in high-risk countries like Palestine (Migdad, 2022a), the prospects and challenges associated with financing Islamic microfinance in IGD regional states (Hersi, 2018), and its importance with new challenges as well as new regulations in Palestinian financial sector (Al-Daya et al., 2022, p. 17).

3.5.4 The Importance of Islamic Microfinance

Globally, the MFI is a tool accepted by the majority as it is viable to enhance social cooperation and assist in eradicating poverty (Obaidullah 2008), helps poor people lift out of poverty (Srinivasan, 2009, p. 7), an alternative tool to provide finance for unprivileged people (Hulme and Arun 2009, 1), and it improve poor people or low-income livelihoods and reduce poverty (Ozdemir, Savasan, and Ulev 2023, 2–3). Some studies illustrate that the IsMF services are very few in Africa when compared to other regions like the Middle East and Gulf Cooperation Council (GCC) countries. The OIC report of the outlook of 2012 shows that Shari’ah-compliant asset distribution is almost estimated to be 1% in Sub-Sahara Africa (SSA), whereas 40% in GCC countries in 2011(Hersi, 2018). Broadly, SSA is a highly marginalized zone in terms of economic issues, particularly in the Intergovernmental Authority for Development (IGAD) region due to being highly affected by economic instability, food insecurity,

geopolitical conflict zone, and fragility related to both natural disasters and man-made problems (Hersi, 2018).

One of the strategic importance of Islamic finance, specifically IsMF is fighting for the socio-economic improvement that the target of low-income societies to ensure financial inclusion. Creating access to finance for economically marginalized communities or poor societies is assisting in attaining the ambitions of sustainable development goals (SDG) and realizing poverty alleviation (Hersi, 2018). Microfinance is operated in two broad classes, which are different from country to country. The first one is the country with plenty of available resources but inadequate skillfulness and countries with good financial aspects and adequate skill as well (M. a Haneef et al., 2013, p. 10). Though associated with the IsMF issue there is no relevant data available for the IGAD region for each country, specifically for Ethiopia to specify to one particular classification but it can be more approached to the first class due to less development of Islamic finance and IsMF in the regions as entirely. The document or information available is also insufficient for researchers, academics, regulatory bodies, and policy frameworks to make robust decisions (Hersi, 2018).

In 2007, it was determined that approximately one-third of Ethiopia's population was Muslim. As a result, Ethiopia has the potential to attract Islamic financial institutions (IFIs), such as IB, Islamic Insurance (Takaful), Islamic capital or sukuk market, and Islamic social finance, including Islamic microfinance, Zakat, Waqf (endowment), and sadaqah, among others services. Notably, Ethiopia's population exceeds the combined total of Saudi Arabia, Syria, and Yemen. As a result, Ethiopia adopted Shari'ah-compliant financing late, it now offers "Interest-free banking –IFB" (Hersi, 2018), in the country's law through regulation directives.

3.5.5 Islamic Microfinance and Shari'ah-Compliant Instrument

Islamic microfinance provides comprehensive and inclusive financial solutions to vulnerable societies by utilizing Shari'ah-compliant tools. It is designed to offer financial services based on Shari'ah principles and rules through financial instruments such as microcredit, micro-savings, and microinsurance. Shari'ah-compliant products and services are structured in accordance with Shari'ah ruling principles, which prohibit interest practices and encourage sale, lease, and sharing-based contracts in

fairness, justice, accountability, and transparency in business transactions. Based on a CGAP's report estimation, only 1.28 million customers were found in 19 countries that utilized Shari'ah-compliant microfinance services in 2013 and the finding revealed that more than 80% of the customers live in three states; Bangladesh, Sudan, and Indonesia. This is despite the fact that 35% of the Muslim population, estimated to be 1.2 billion, lives under the poverty line (B. E. D. A. Ibrahim, 2017, p. 18). However, the projected Muslim population in 2030 is expected to exceed 2.3 billion (N. Alam et al., 2021, p. 224), which means that the demand for economic solutions is also increasing rapidly. Eventually, on the other hand, some reports revealed that nowadays only 26 individuals have wealth equivalent to half the world population across the globe (A. G. Ismail et al., 2022, p. 68).

3.5.6 The Islamic Microfinance Models

Globally, individuals or small groups in particular can utilize the microfinance business model to secure their livelihood across financing from financial institutions. Several research studies have found that both Shari'a-compliant and non-compliant microfinance enterprises participate in different forms of financial activities. Multiple microfinance models exist, such as the Grameen Bank Model (Z. T. Ahmed, 2022; Li, 2023; Suzuki et al., 2011), the Village Bank Model (Islam & Akter, 2020; Setiawan & Yusoff, 2022; Srisuksai, 2021), Credit Union Model (Afoukane et al., 2021; Bulut & Celik, 2022; Y. Ibrahim et al., 2018; Salaudeen et al., 2023), and Self-Help Groups Models²⁸ (Hussein Kakembo et al., 2021; Muhammad et al., 2022) and among others.

Islamic microfinance is a model that uses well-designed and dynamic tools to provide financial services to clients based on Shariah principles and rules. The model aims to employ Shariah-compliant instruments arranged in accordance with Allah's will. Shariah-compliant instruments used in Islamic microfinance include profit-sharing

²⁸ Mohammed Obaidullah, *Introduction to Islamic Microfinance* (IFB Net: The Islamic Business and Finance Network, 2008), 7-8. (Note: Few instances regard the types of models that are widely practiced in Bangladesh, Latin America & Africa, Srilanka, and India respectively).

contracts (mudarabah), cost-plus financing (murabahah), leasing contracts (ijarah), equity-based contracts (musharakah), salam contracts, and Istisna. Islamic microfinance institutions do not charge interest on loans but instead offer Shariah-compliant products and services that may include profit and loss sharing (PLS) arrangements, where the creditor and borrower share the generated profits and incurred loss. Shariah-compliant instruments and Islamic microfinance are integral elements of contemporary Islamic financial systems, providing ethical and inclusive financial solutions to underserved populations and vulnerable communities. These services promote PLS or risk-sharing, justice, fairness, and responsible financial practices, in line with Islamic law or ethical values and principles for human well-being and development.

Hence, below section 3.5.7 is a detailed list of Shari'ah-based and Shariah-compliant product models, including Mudarabah, Musharakah, Murabah, Ijarah, Selam, Istisna, wakalah, and Kafalah, among others, that are used for Islamic financing and IsMF services.

3.5.7 Islamic Microfinance Instruments

3.5.7.1 Mudarabah

Mudarabaha contracts are a form of partnership used in Shari'a-based financial transactions. It is a traditional Islamic finance instrument that operates on a profit-loss-sharing mechanism. In this type of financing, two parties engage in commercial activities. The first partner provides the capital, known as rabb al-mal (capital owner), while the second partner takes care of business management, known as mudarib (AAOIFI, 2015; Cattelan, 2019; Usmani, 2007; Zuḥaylī et al., 2001). Hence, Mudarabah can be divided into two forms: restricted and unrestricted. In a restricted mudarabah partnership, the rabbul-mal has the right to specify or limit the investment arena during business agreements with other partners. However, in both restricted and unrestricted mudarabah, only the mudarib is authorized to undertake business activities on a day-to-day basis (Usmani, 2007; Zuḥaylī et al., 2001). In mudarabah contracts, the profit distribution mechanism is agreed upon between the two parties at the beginning, in a viable proportion of the actual profit. They can follow any proportion, such as 20/80, 30/70, or 50/50, as long as both parties agree on the proposed

proportion. This is because one proportion is not suitable for several mudarabah partnerships across the globe.

Mudarabah business contracts can be combined with musharakah business contracts or other modes of investment contracts. Usually, in the mudarabah contract, the mudarib is not expected to contribute money for investment. However, in the mixed form of Mudarabah and musharakah modes of contracts, the mudarib can participate in both investment money and day-to-day business transaction management as usual. Mudarabah contract modes can be useful for resource mobilization, as well as financing various forms of investment, such as single transaction business, project financing, and mixed contract modes of financing.

In this study, the Madaraba contract is considered one of the most suitable Islamic financing methods for rural-based small business owners. This PLS-based mode of financing helps these entrepreneurs in the production of small industries such as woodwork, metalwork, livestock, and tailoring by providing them with the necessary resources to conduct their business activities. Financing tools can be allocated as a single or mixed contract based on the needs of the financing parties. Moreover, ICFCW modes of financing instruments are expected to foster financing infrastructure like education, health, and entrepreneurship to start-up businesses to a large extent through mobilizing resources for such productive project funding.

3.5.7.2 Musharakah

The Musharakah contract is a participatory or profit-loss-sharing contract used by IFIs. It involves two or more parties who contribute capital and participate in business service activities (AAOIFI, 2015; Cattelan, 2019; Usmani, 2007). This makes it similar to mudarabah contracts, which are also contributory contracts based on Islamic principles from early Islamic civilization. Islamic thinker and scholar (Usmani, 2007) explained in detail regards to Musharakah in his book "An Introduction to Islamic Finance," Islamic scholar provided detailed explanations about Musharakah and other relevant studies in the field (AAOIFI, 2015; Zuḥaylī et al., 2001). Therefore for an in-depth understanding and to explore more refer to his book and other relevant studies in the field.

The studies underlined in Bangladesh by utilizing Musharakah modes of financing for rural-based small businesses, particularly in the agricultural sector, has been proven to reduce unemployment, facilitate job opportunities, and improve capital work funds for vulnerable societies in areas where large-scale financial industries failed (M. N. Alam, 2016, pp. 165–166). This has significantly contributed to the economic development of emerging nations. Interest-free financial industries such as Islamic banks have commenced operations in various countries, which is enhancing economic growth and development in rural areas, as shown by various studies.

For example, a mixed Mudarabah and Musharakah partnership can be used in conjunction with Shari'ah-compliant tools. Furthermore, alternative financing instruments, such as Musharakah, salam, and parallel Salam or Istisna, and parallel Istisna may also be considered to finance rural-based entrepreneurs who produce agro-economy and small industries such as woodwork, metalwork, and tailoring, among others. The interests of both parties, particularly for rural-based small-sized entrepreneurs, should be taken into account when making this decision.

3.5.7.3 Musharakah Mutanaqsa (Diminishing Musharakah)

Shari'ah Standard No. 12 of AAOIFI defines a financial agreement called the diminishing musharakah contract between two parties. In this contract, one party agrees to gradually purchase units or shares of equity from the other party until they own the entire equity. This type of contract can be used for a promise to buy, but it is also subject to the general rules of partnership (AAOIFI, 2015).

3.5.7.4 Murabaha

The murabahah contract is a type of sale transaction that is not related to financing in its original form, as noted by (Usmani, 2007). In this type of contract, the seller discloses the cost of the commodity and then adds a markup profit, which can be in the form of a lump sum or a percentage of the cost. Murabahah financing is widely used in interest-free credit and service providers, and it is considered a special financial transaction that complies with shari'ah law. Nowadays, murabahah financing is very popular, and commonly majority of interest-free credit providers and service renders

firms are utilized widely. Therefore, several studies reveal that more than 70 percent of Islamic banking, Takaful, IsMF, and other IFI services are operating through these modes worldwide.

Certain fundamental conditions must be met for a transaction to be considered a murabahah contract, according to (Usmani, 2007). While some transactions may appear to be murabahah, different contracts require specific identification. For example, if the seller gains profit without disclosing the cost using the "Cost-plus" concept, this transaction is not considered murabahah, and it may be called "Musawamah," which does not adhere to the basic rules of murabahah.

Accordingly, the Murabaha mode of finance has gained popularity in Islamic banking and financing services and is often referred to as the "Murabaha syndrome." It is widely used by Islamic Financial Institutions (IFIs) due to its multifaceted purpose and its suitability as a form of Islamic financing product. It supports individuals or groups in society who engage in trading activities by providing them with suitable contractual modes to facilitate the exchange of products and services with their clients and customers. For example, individuals or groups involved in business transactions that require frequent buying and selling of commodities often opt for Murabaha financing due to its suitability.

3.5.7.5 Ijarah/Leasing

Ijarah refers to a rental-based contract that can be classified into two categories. The first type involves hiring someone's services and paying them a wage in return for their work. The second type involves leasing assets or properties to someone in exchange for rent. The lessor is referred to as "*Ujir*" in this type of contract, while the lessee is known as "*Ujrah*" (Usmani, 2007). In contrast, the employer in the first type is called *musta'jir*, and the employee is referred to as *ajir*.

While both sale and leasing involve transferring something to another party, there is a fundamental difference between them. The sale involves transferring the ownership of the property to the buyer, whereas leasing only transfers the right to use the property while the ownership remains with the lessor (Usmani, 2007). If you want to learn more

about the basic rules of ijarah or leasing, you can refer to the introduction of Islamic finance books and studies, such as the one conducted by (Usmani, 2007).

Moreover, the Ijarah contract is a financial agreement based on Islamic finance principles that prohibit the charging of interest (riba). It involves leasing or rent-to-own of an asset for financial transactions. The party transferring the property right to use is called the lessor, while the other party is the lessee who agrees to lease a specific asset for a specified period for exchange rental payments. The lessor earns a profit through the rental payments, and the lessee is responsible for minor services and maintenance of the leased asset insurance and any associated costs. The Ijarah contract promotes fairness, risk-sharing, and ethical principles of Islamic finance at the macro and micro levels, making it a widely used tool in Islamic banking and finance. It is crucial for individuals and businesses interested in entering into an Ijarah contract to comply with shari'ah compliance and local regulations. It is also suitable for small and large-scale businesses, including urban-based entrepreneurs and innovators in sectors such as agriculture, health, education, and services.

3.5.7.6 Salam

The Salam contract is a traditional Islamic financing system that has been in use for a long time. It involves selling goods in advance and receiving payment immediately. This type of contract was commonly used for financing agricultural activities in ancient Middle Eastern Arab communities. Prophet Muhammad (pbuh) added some criteria to the way it was practiced before Islam to make it more efficient. Nowadays, the salam contract is also used to finance the production of industrial goods (Cattelan, 2019). In addition, a salam product refers to “A sale or of purchase a deferred commodity for the present price for latter or bay ajilin bi ajil” (Muneeza et al., 2011, p. 140). This salam contract/product is applicable mainly for standardized goods and has its own conditions²⁹ during contracting. To promote economic development and reduce poverty, salam financing plays an important role in providing economic

²⁹ Monzer Kahf, *Islamic Finance Contracts* (Westminster California, Second Edition, 2015), 103-109.

opportunities for rural communities. Islamic microfinance has been found to be a promising tool for achieving this goal (Cattelan, 2019). The study conducted in Malaysia revealed that a salam contract is suitable to support farmers in order to handle the pros and cons of harvest among others to mitigate risk at a manageable level (Muneeza et al., 2011, p. 138).

3.5.7.7 Istisna

The Istisna contract is a type of Islamic financing tool that can be useful for providing services related to industrial financing. It is a suitable financing option for Islamic microfinance, especially in the context of Islamic social finance. This can help encourage economic empowerment on a larger scale (Cattelan, 2019). This contract applied for unstandardized goods in particular, which did not exist during the contract.³⁰

3.5.7.8 Wakalah

The Wakalah contract is a financial arrangement where one person is authorized to invest and generate wealth on behalf of another, with or without fee. On the other hand, the Arabic terms for this contract simply refer to "preservation, safekeeping, and protection".³¹ Kahf provides a detailed explanation of this contract in his book "Islamic Finance Contract", which is not only useful for understanding these products but also provides insights into the overall IFI contracts. According to AAOIFI SS No: 46, it is also known as an investment agency or al-waka lah bi al-Istithmar. This type of investment is allowed in Shari'ah, as explained in AAOIFI SS No:23 (AAOIFI, 2015) which provides additional details. Therefore, in contemporary Islamic finance and Islamic social finance, such as IB, IsMF, and Takaful, wakalah or agent investment can be a viable option due to its features.

³⁰ Ibid., pp. 109-111.

³¹ Ibid., pp. 296-303.

3.5.7.9 Kafalah

Kafalah or Suretship contract is referred to as occasionally personal guarantees, “that is adding the financial entity of a guarantor to the guaranteed in debts, present or potential to, or in court appearance”.³² And also, means the transfer of rights to another party as a guarantor, in case the original party (guaranteed) cannot fulfill his obligation. AAOIFI SS No:5, explain the detailed form of guarantees. Literally, guarantees are crucial in the case of securities proposals. It is worth mentioning that, the combination of agency services and personal guarantees is not permissible (AAOIFI, 2015). According to, (Al-Zuhayli, 2002) kafalah is referred to as “Making the guaranteed person’s liability a joint liability of the guaranteed and guarantor at the time of the demanding compensation” relying on the Hanafi madhab. Kafalah contracts are mainly utilized for Shari’ah-compliant tools of risk management purposes due to individual or group financing as a form of guarantee and collateral (daman) in IsMFIs and micro-takaful (Riwajanti, 2013, p. 261). IsMF is one of the alternative tools to providing financial services to improve financial development, contribute towards alleviating poverty, and increase financial inclusion (Riwajanti, 2013, p. 269).

Notably, the studies conducted on the effect of Islamic financial inclusion related to infrastructure quality in line with economic growth reveal that there is a significant relation or impact between sukuk, financial inclusion, and economic growth (S. S. Ibrahim & Sanusi, 2022, p. 87). In addition, it is proposed that the ICFCW model project financing modes should use Ethiopia Birr as the primary project financing currency for any contract means when financing rural-based small and urban-based entrepreneurs. Hard currencies such as the US Dollar, UK Pound, and Euro should not be used due to exchange rate matters that could negatively impact both parties in the long run.

3.5.8 Islamic Microfinance and Entrepreneurship

The concept that religion plays a vital part in economic growth and development through entrepreneurial activities is not a new idea. Islam also supports this concept

³² Ibid., pp-283-296.

and encourages Muslims to become entrepreneurs (Hassan, 2013; Sohail & Arshed, 2022) in order to earn income in lawful or halal ways. In this regard, it is crucial to increase awareness of customers towards halal products to create demand (N. Alam et al., 2021, pp. 234–235). Muslim entrepreneurs should avoid products and services that harm humanity based on Islamic worldviews (Sohail & Arshed, 2022). In this context, Muslim entrepreneurs must adhere to the maqasid al-Shari'ah (Islamic Objectives). Maqasid al-Shari'ah comprises safeguarding religion, life, intellect, lineage, and wealth (Sohail & Arshed, 2022). Therefore, it is expected that Muslims and other entrepreneurs follow the guidelines provided by Islamic law or shari'ah-compliant rules (Sohail & Arshed, 2022).

Allah (saw) prohibits earning income through unlawful means. Therefore, the Qur'anic verse 2:275 states "But Allah permitted sale/Bay (i.e., previously referred to as trade) and forbidden usury/Riba." In this context, earning sustenance (Rizq) through hard work and effort is preferred. Islam does not oppose working for others based on a fixed income or compensation, but it encourages entrepreneurship rather than working for others (Hassan, 2013). According to the narration by Nu'aym Ibn Al-Rahman, the Prophet (pbuh) stated that "Nine-tenths of the rizq is acquired through business activity (trade)." Omer Ibn Al-Khattab, the second Khalifah, also said "Nothing is more satisfying to me than earning (driving) my rizq/sustenance through my hard work and efforts" (Hassan, 2013). Entrepreneurship helps create job opportunities and reduce the unemployment rate. It can also serve as a key to sustainable economic growth, development, and stability (Sohail & Arshed, 2022).

Islam promotes entrepreneurship for societal and economic aspects in morally, ethically, and universally acceptable business activities. It is also encouraging as it aligns with the principles of Islamic law (Shari'ah principles) in general. In Western worldviews, the motivation for entrepreneurial activity is derived from profit maximization. From the Islamic view of points, entrepreneurship activity is not only driven by creating profit but also associated with a form of Ibadah primarily to please Almighty Allah. Additionally, religious and benevolent (altruistic) activities are crucial stimuli of Islamic entrepreneurship (Hassan, 2013) and entrepreneurship contributes to social well-being (Sohail & Arshed, 2022). Recent research shows various financial developments such as equity finance, capital markets, mutual funds,

and venture capital, in which equity financing among others depends on profit-and-loss-sharing (Sohail & Arshed, 2022).

3.5.9 The Demand Side of Microfinance in Ethiopia

The financing of the economic gap related to microfinance has been a significant point of discussion, particularly in obtaining finance on both the demand side and counterparts. Understanding Microfinance (SME's) problem of access to funding implies describing the various hindrances either on the demand side or the others. In this study, it is expected that this financing and economic gap for micro-businesses can be attributed to the demand side as well as the counterpart worldwide, and in Ethiopia in particular. Eventually, the demand side usually focuses more on the characteristics of firms that curb their capacity to fulfill the feature for bank loans leading to financial impediments. Furthermore, it is a side of the financial system that is mainly highlighted and aligned with the users of the financial services for financial inclusion (Klapper & Singer, 2017, pp. 1–15).

Table 3.8: Ethiopia's Comparative Indicators of Financial Inclusion (2018)

Indicator	Ethiopia	SSA	Low-income
Population of age 15+ (Millions), GNI per capita (\$) 660	60.3		
Account (% age 15+)			
All adults	34.8	42.6	34.9
Account, by individual characteristics (% age 15+)			
Women	29.1	36.9	29.9
Adults belonging to the poorest 40%	22.4	31.9	25.5
Adults out of the labor force	23.4	31.4	23.4
Adults living in rural areas	32.4	39.5	32.3
Digital payments in the past year (% age 15+)			
Made or received digital payments	11.9	34.4	25.6

Used the internet to pay bills or to buy something online	0.6	7.6	4.8
Used a mobile phone or the internet to access an account	0.4	20.8	17.1
Used a debit or credit card to make a purchase	..	7.5	..
Credit in the past year (% age 15+)			
Saved at a financial institution	26.3	14.9	11.1
Borrowed from a financial institution or used a credit card	10.7	8.4	7.9
Borrowed from family or friends	30.9	31.0	31.3

Source: World Bank Financial Inclusion Dataset, Global Findex

<http://datatopics.world.org/financialinclusion/country/ethiopia>, [27.06.2023].

According to Table 3.8, 32.4% of rural adults over the age of 15 own a bank account, which is lower than the average of 39.5% in Sub-Saharan Africa. Young people typically open accounts after turning 18 for higher education or business purposes. The World Bank's financial inclusion data provides information on bank accounts, savings, loans, and digital payments. In the past, only 26.3% of adults over 15 years had savings in a financial institution for financial transactions, while 30.9% borrowed, which is low when it has been compared to global rates. This can be due to a lack of demand or limited loan availability towards financial services. Microfinance may lead to higher levels of borrowing. The poorest 40% may have bank accounts but be denied loans, contributing to these figures.

The World Bank global financial inclusion dataset revealed that the financial sector in Ethiopia has the potential to benefit from microfinance. Surveys show that 22.37% of adults save annually in formal accounts like banks and microfinance institutions (Baza & Rao, 2017, p. 196). Additionally, informal saving systems like ROSCA (known as iddir and iqub) are also popular in Ethiopia. However, a study on microfinance performance found that low demand and poor welfare can negatively impact efficiency and savings security (Oljira & Fenet, 2016, p. 15).

In compile, microfinance aims to promote financial development through small credit and savings facilities (Shifa & Fuller, 2022, p. 1271). This study suggests that there

is significant potential for microfinance in Ethiopia. However, factors like population growth and economic growth may also affect this potential.

3.5.10 The Supply Side of Microfinance in Ethiopia

The financial sector or finance provider, such as banks, is commonly associated with the supply side. However, there is a need for reform and a reduction in perceived risks to finance small businesses. In Ethiopia, the banking sector provides minimal credit access to SMEs, with only 0.32% as initial capital and 0.8% as working capital. SMEs in Africa are less likely to take loans from financial institutions compared to other developing countries, despite similar factors affecting access to finance. On average, only 5.4% of bank loans in Africa are allocated to small and medium enterprises, while other developing countries lend around 13.1% (Nega & Hussein, 2016). Similarly, the Indian SME sector faces challenges due to high credit costs and complex lending policies and procedures (Hasan & Ahmad, 2020a).

3.6 Bank Institution in Ethiopia

For a long time, banks in Ethiopia did not have strong relationships with SME firms. Public as well as private banks have not been providing significant services to SMEs.

3.6.1 Public Banks

However, since its establishment in 1909, the Development Bank of Ethiopia and other developmental banks across the globe have supported SMEs, particularly in agriculture, agro-processing, mining, and energy-producing industries through capital goods lease or hire purchase financing system (DBE, 2021). The Commercial Bank of Ethiopia, the largest publicly owned and dominant bank in the banking sector for decades in the country, was established in 1942.³³ On the other hand, the National

³³ <https://www.combanketh.et/en/about> [23.06.2023].

Bank of Ethiopia, which oversees the entire bank sector, was officially established in 1963 and commenced operation in 1964.³⁴

Currently, Ethiopia's financial sector is rapidly expanding and growing faster than in previous decades. According to the National Bank of Ethiopia (NBE), Ethiopia's financial service provider institutions are categorized into six groups: 29 banks (2 public and 27 private), 18 insurance companies (1 public and 17 private), microfinance 45 institutions (32 public and 13 private), 6 capital goods of finance (lease companies), 8 payment instrument insurers/system operators, and one reinsurance firm (<https://nbe.gov.et/>).

3.6.2 Private banks

Today, almost 27 private banking institutions are operating in Ethiopia as aforementioned above, offering various financial services such as commercial, retailer, and development, including 14 window-based interest-free services providers, and 4 full-fledged shari'ah-compliant, among others. This rapidly growing, progress and expansion of the private banking sectors in Ethiopia has a huge potential in promoting financial inclusion. Studies revealed that those businesses that are supported by private banking play a significant part in inclusive financial development (Yu, 2021).

3.6.3 SMEs Institutions

According to the ENB report of 2021, out of 39 micro-financial institutions, a total of 115,200 SME branches were found across the country, providing an estimated credit amount of 5.016 billion Ethiopian Birr and creating job opportunities for 585,119 thousand employees (NBE, 2021c). Accordingly, Ethiopia's microfinance sectors have shown good progress from time to time in the past few years, which is more than 2 million people benefit from it (S. Ali & Alemu, 2018, p. 309). This indicates that microfinance is a key tool for alleviating poverty and it is one of the effective mechanisms for developing excellent strategies in line with poverty reduction (S. Ali

³⁴ <https://nbe.gov.et/about-national-bank-of-ethiopia/> [23.06.2023].

& Alemu, 2018, p. 308; Yu, 2021). It is an organization associated with public or non-governmental which is providing financial services for low-income societies (S. Ali & Alemu, 2018, p. 309).

3.6.4 Other Civil Society Organizations

People Save deposits in MFIs as well as in SMEs formal or informal. In Ethiopia, people save their money in both formal and informal accounts, such as MFIs and SMEs. Informal methods of saving, like traditional practices, are still practiced nowadays in Ethiopia. Therefore, these traditional systems, are part of the rotating savings and credit association (ROSCA) system from the informal fund collection side from past to present. The ROSCA, which is known as Iddir, Iqqub, and Mahber described as follows:

3.6.4.1 Iddir

Iddir is a traditional social function that has been used historically in Ethiopia. It refers to or is equivalent to self-help, social-based for mutual benefits in solidarity cooperation. It consists of community members living in the same area, organized with elected leaders out of the group that governs in democracy. The main purpose of Iddir is to assist each other during misfortune times by sharing the burden and happiness times like weddings for social contracts, collectively. This system is still utilized in both rural and urban areas for solidarity, and in some urban areas, collected funds may be lent for commercial purposes.

3.6.4.2 Iqqub

The *Iqqub* system is similar to the Rotating Savings and Credit Association (ROSCA)³⁵, but it is mainly used for commercial purposes. A group of community members comes together to create a resource mobilizing fund, and the group members pool their lottery-style chances to define the order in which they receive the funds.

³⁵ Rashid Jahangir et al, *Evolvement of ROSCA to real property acquisition as a form of interest-free SBF model: a PRISMA-compliant systematic review*, V.41(1), (2023).

Using *Iqqub*, members may utilize their share to fulfill basic necessities like household appliances, education fees, or even car and jewelry purchases. Both *Iddir* and *Iqqub* can be applied in contemporary times through non-banking financial instruments using social financing techniques. Using technology (fintech) is a great tool and genuine channel to support low-income societies as well as to alleviate poverty. Therefore, *Iddir* and *Iqqub* are part of the ROSCA system of informal fund collection.

3.6.4.3 Insurance Company and Others

Insurance companies play a significant role in the financial ecosystem by offering insurance policies, "premiums", to mitigate risk and provide financial protection. They specialize in governing, underwriting policy, and offering various categories of risk mitigation. In Ethiopia, there are currently 18 insurance companies, one public and 17 private operating. Insurance firms offer appropriate insurance policies, i.e., premiums for policyholders' personal or business enterprises, which safeguard against unfortunate occurrences such as natural disasters, illness, property damage, or other incidents. Policy redemption or compensation primarily aims to recover only the utmost likely equivalent to the loss amount or less, in order to assist policyholders based on the principles of putting the risky person or business entity into place before the risk occurs.

Banks mainly serve to interconnect and arrange the flow of funds from the supply side or surplus funds to the limited fund side for those intending to engage in borrowers' funds. Insurance and other institutions, such as investment firms and asset management companies, specializing in managing asset portfolios, providing consultancy services, and arranging numerous investment options, including mutual funds, retirement plans, and exchange-traded funds (ETFs), targeting to generate higher income or returns by prioritizing their investment strategies. Insurance companies, banking institutions, investment organizations, and portfolio management firms all operate in the financial ecosystem, each having different roles and functions according to their expertise.

3.7 Challenge and the Prospect of Microfinance Institutions in Ethiopia

Primarily, small and medium enterprises (SMEs) often face obstacles and challenges during their operation and implementation to be economically viable, which are unique challenges that are different from those faced by larger firms. While each country's economy is different, SMEs across the board have identified similar challenges. These include managerial, financial, and technological issues, as well as challenges related to regulatory environments and marketing systems. Access to capital is particularly crucial for SMEs, as it can be hard to come by and expensive. Without this access, it can be challenging for SMEs to expand and thrive (Abdulsaleh, 2016).

3.7.1 Narrow Development and Growth

The term "Development" can be understood in two ways, either in a narrow or a broad sense. In the narrower sense, it is associated with limitations in improving GDP rates and rebuilding society. In the broader sense, it includes concepts like welfare, sustainable growth and development, prosperity, and working toward the betterment of society. The issue of narrow development is highly politicized and has not been well understood.³⁶ Small and medium-sized enterprises, often face barriers such as lack of adequate policy, cash flow constraints (i.e., short-term) in particular, limited finance access, and infrastructure well-being as well as capacity gaps at large (Liu, 2018).

A report by the World Bank finds that, the majority of small and medium-sized enterprises (SMEs) in emerging markets, around 70%, face difficulties in obtaining credit. However, in contemporary issues, fintech offers a promising solution to bridge this gap between product and service provision for SMEs (N. Alam et al., 2021, p. 7). Such credit gap for formal SMEs at current is approximately US\$1.2 trillion, while the total credit gap for both formal and informal SMEs is estimated to exceed US\$2.6 trillion. Recent studies suggest that there is significant potential for utilizing the

³⁶ Antonio A. R. Ioris, *Rethinking Brazil's Pantanal Wetland: Beyond Narrow Development and Conservation Debates* (The Journal of Environment & Development, 22(3), (2013), 239–260.

Shariah-compliant Islamic financial system in emerging countries, particularly for Muslim societies (Elasrag, 2016; Personal & Archive, 2016). The challenges faced by SMEs in accessing finance have long been a subject of research, with estimates indicating a gap of \$3.2 to 3.9 trillion worldwide for legal and illegal SMEs and \$2.1 to 2.6 trillion for emerging economies (IFC, 2013). When including formal micro-enterprises in the SME sector, the potential credit gap for the over 100 million formal SME industry could be as high as \$1.7 trillion. For legal and formal SMEs, the total credit gap is estimated at \$1.5 to 1.8 trillion, with \$0.9 to 1.1 trillion being from emerging market economies (Abdulsaleh, 2016).

In Ethiopia, the SME industry faces a lack of accurate data and information due to the absence of a well-organized system developed with open access via websites online or offline archives. For instance, the industrial classification system had numerous challenges, as seen in the surveys conducted in 1984/85. Eventually, a review of a few sectors in 1986 revealed that the number of modern small-scale industries that were established and categorized was no more than 1,360 (Wole, n.d.).

In contrast, Ethiopia's economy did not show significant progress for several decades, as the country was ruled by a corrupt and inefficient elite that monopolized power and excluded a wider society from the beginning of the authoritative regime until the Federal system ruled. Such corrupted socio-economic and infrastructure decreased at some level after the regimes changed from authoritative to Federal structured in the context of infrastructures, while institutional-based systematic corruption became well-organized in some sectors and highly popularized again. This corrupted socioeconomic-political policy brought the regime change in the Federal state office in 2018. The reasons for this were due to extractive political institutions, lack of sound policies, inadequate political power sharing and representation across multiple cultural identities, religion, and ethnicity-based groups, and a lack of understanding of the country's genuine socioeconomic-political solution for country instability and insecurity in particular associated with redistribution of wealth and income problems.

3.7.2 Policy Issue Related to Microfinance and Poverty Alleviation

Understanding the country's socio-economic-political situation is important in providing microfinance services. Factors such as government policies, financial

ecosystems, and microfinance firms play a significant role in the influence of microfinance. Thus, microfinance is a vital business activity globally (Ledgerwood, 1999). Microfinance is a vital business activity worldwide, despite being called "Small" according to Green (2014), small businesses make up a significant portion of economic activity in the United States, with 75% of them operating without employees. Accordingly, small businesses underlying commercial sales, GDP, and NGO activities in 40%, 50%, and 55% respectively in the USA (Green, 2014). Besides, other studies underlined in Ethiopia on the Performance of MFIs in line with social responsibility and financial sustainability cited that commercial MFI credits are more expensive than NGO-based loan facilities. Accordingly, commercial MFI is more indebted to vulnerable societies over and over again, while NGO-based MFI is cheaper and benefits more low-income societies (Shifa & Fuller, 2022, p. 1270).

Studies in Ethiopia have shown that NGO-based microfinance loans are cheaper and benefit low-income societies more than commercial microfinance loans. Several reports indicate that rural areas in Muslim countries, particularly in sub-Saharan Africa, MENA, and Middle East Asia, are more vulnerable to financial exclusion. Islamic microfinance can help mitigate high unemployment rates in these countries by promoting small businesses, such as Small and Medium-sized Enterprises (SMEs) (A. E. Ali, 2015). Promoting Islamic microfinance in regions like Sudan has brought positive impacts by reducing high unemployment rates and improving financial access and services. However, there is still a need for more development and facilities in the financial sector to make it more inclusive (Alemu, 2016).

3.7.3 The Role of Islamic Microfinance in Reducing Narrow Development

The Islamic approach to economic development prioritizes real economic growth while also striving to improve the overall well-being of individuals in terms of material and personal development, as well as the community as a whole, both in this life and the afterlife (A. M. Ali, 2017). IsMF's social development activities aim to empower individuals economically while also promoting religious development (Ozdemir et al., 2023). The newly embarked IsMFI that is established in the country relies on providing financial facilities by creating new market opportunities for entire poor societies including women (S. Ali & Alemu, 2018, p. 320).

In Islamic finance, relying on the real economy is associated with asset-based instruments such as Murhabaha and leasing (Ijarah), which are based on sale and share-based products of PLS as well as contribution products like qard-hasan that assist entrepreneurs in particular (Sohail & Arshed, 2022). Studies show that the Islamic equity-based financing system, which utilizes mechanisms like PLS or risk mitigation, encourages entrepreneurship (Sohail & Arshed, 2022). In Islamic economics, land serves as a crucial resource for rural communities to improve their economic situation and is owned by private, public, and state entities (N. Ismail & Aisyah, 2017). Financing for agricultural lands can be achieved through modes of Islamic financing such as Musharakah, mudarabah, murabaha, Ijarah, Salam, takaful, and others (N. Ismail & Aisyah, 2017). Micro takaful is also a useful tool for mitigating natural or other risks in the agricultural sector through Islamic insurance, which relies on ta'awun and tabarru³⁷ rulings (N. Ismail & Aisyah, 2017). By combining various financial sectors, including Islamic banking, Islamic microfinance, Islamic insurance (takaful), and others, along with state assistance, rural communities can optimize their lifestyle and welfare (N. Ismail & Aisyah, 2017). However, IFIs' financing practices in the agricultural sector are currently limited, and further development is necessary.

3.8. The Role of SMEs in the Development of Ethiopia

For the past 30 years, SMEs have shown great progress in industrial development in Ethiopia. Thus, nowadays, less developed countries are also recognizing the importance of small-medium-scale business policies and prioritizing such strategic planning for economic growth and development. Industrial development is seen as a means to promote industrialization and stimulate economic development in LDCs around the globe. Across the globe, whether in developed or developing countries, SMEs have been widely accepted as a tool for poverty reduction and socio-economic empowerment (Aderemi & Ishak, 2020). They contribute positively to income

³⁷ Nurizal Ismail & Siti Aisyah, *Optimization of Agricultural Land: A Lesson from Islamic Economics*, Volume 1(2), (Al-Iktisab: Journal of Islamic Economic Law; 2017), 124-125. (Note: Ta'awun means mutuality and whereas, tabarru means donation).

generation and distribution, labor absorption, unemployment reduction, and poverty alleviation³⁸. Consequently, in order to achieve sustainable development goals, policy programs and sound strategic development have been utilized for SMEs' comprehensive economic sectors in both developed and growing economies (Abdulsaleh, 2016).

However, studies have shown that SMEs face more financial constraints than significant industries, in both developed and emerging countries. In emerging economies with low economic levels, SMEs often lack access to financial resources (Hersi, 2018). This is particularly true in Sub-Saharan Africa where SMEs face credit limitations that hinder their growth prospects. Nega & Hussein (2016) noted that the probability of a small-scale enterprise financing limitation barrier is 39% for small, 36% for medium, and 32% for large firms when compared, respectively. The smaller the company, the more significant the restrictions on lending, resulting in more financing obstacles than large enterprises. Micro-scale companies usually rely on informal financial markets for borrowing capital, while sizeable firms access funds from formal institutions. To bridge the financing gap between micro and substantial enterprises, promoting and incentivizing SMEs is vital for robust economic growth and employment opportunities. Other studies show a 37.79% increase in microfinance sustainability from 2006 to 2008, and an 88% increase in 2009 in Ethiopia (S. Ali & Alemu, 2018, p. 318).

3.8.1 Sources of Funding for Micro-Enterprises (SMEs)

SMEs need the ability to obtain finance to grow sustainably. This is important for their operations at all stages of development. There are four key times when SMEs need to increase their funds, according to (Bates and Hally, 1982). Firstly, they need funding to establish capital for the start-up of their business. Secondly, they require investment for expansion, (i.e., buying buildings or machinery) or for working capital purposes.

³⁸ Abdulaziz M.A. Abdulsaleh, *Bank Financing for Small and Medium-sized Enterprises (SMEs) in Libya* (2016), suggested that some sectors including computer engineering, marketing, and human resources development are a few instances.

The third occasion is when funding is needed for innovation, which can overlap with the first or second steps eventually. Last but not least, SMEs may seek funds to adjust their existing financial framework, such as changing the proportion of equity to debt or switching from long-term debt to short-term debt or vice versa.

Research has shown that funding for small-scale industries can come from both internal sources (equity capital) and external funding sources. Equity capital financing is a suitable tool for replacing short-term losses, start-up capital, and financing long-term investments (Torre, 2017). Those who provide equity investment benefit from it being mainly non-repayable, whereas debt capital is repayable. Investors also receive a portion of the profits and have a voting right to control the investment (Torre, 2017)³⁹. Small and medium-sized enterprises may rely on internal financing for their business activities, as it offers several advantages, including maintaining financial autonomy, preserving borrowing capacity, and providing reliable financial assistance. However, SMEs may need external financing due to their lack of sufficient internal resources promptly. Studies revealed that some available options for external funding for SMEs perhaps by receiving loans, grants, and capital markets (Abdulsaleh, 2016).

3.8.2 Framework and Developmental Policy for SMEs

The role of SMEs is extremely important in a financial system for policymakers and regulators among others at both the national and international levels. SMEs make up the majority of organizations in most states and are critical sources of employment. Since the 2008 financial crisis, SMEs have been instrumental in employment growth and are therefore a significant focus for policymakers (Elasrag, 2016). The Securities Commission in Malaysia issued guidelines on Islamic venture capital for SMEs in 2008, which included three shariah-compliant tools: *mudarabah*, *musharakah*, and *wakalah*. Following these guidelines can create a harmonious model that is helpful for venture capital financing in Islamic finance (Oseni et al., 2013).

³⁹ Mario La Torre, *Impact Investing: Instrument, Mechanisms and Actors* (Palgrave Studies in Impact Finance: Sapienza University of Rome, Italy 2017).

The growth of SMEs has been observed worldwide since the 2008 financial crisis, with countries like the UK, France, and Sweden experiencing a positive impact on job creation. However, there is less empirical evidence of SMEs' boom in the economy of recently emerging countries. Many micro-enterprises in undeveloped countries are still informally organized, but knowledge-based capital can help them create a niche in global networked markets, leading to additional value generation.

The definition of an SME varies from country to country, with Ethiopia seeing the potential of SMEs as a growth and development instrument for job creation in the private sector. SMEs are defined internationally through three essential criteria that are associated with full-time employed persons, total assets, net assets, paid-up capital, and total annual sales turnover among others. These criteria can be applied entirely or separately to define micro-business or SMEs, with the legal status of enterprises used as an additional criterion. In Ethiopia, micro-businesses are classified into two categories in the 1997 E.C. (2005 G.C.) relying on the micro and small enterprises development strategy and the Central Statistics Authority. Furthermore, micro and sizeable businesses in the industry including service sectors must legally obtain a business license of registration under the existing Ethiopian business license ruling categories. To improve the SMEs, the development agency aligns with the GTP-I, especially to enhance small and medium enterprises in the manufacturing sector that produce items for export in order to substitute import activities, and enterprises in the manufacturing, construction, trade, services, and agricultural sectors that have the potential to create significant-scale employment should be given particular attention (Belyaeva et al., 2020; FDRE, 2011).

The Ethiopian small and medium-sized enterprise (SME) industry focuses mainly on producing foodstuffs, and wooden, and metal products for construction as well as several household utilization materials. On the other side, micro-enterprises are involved in textile manufacturing, ceramics art and products, brick production, grain milling and pressing, and publishing goods and services. This is contributing to the growth of industries such as glass and leather production, as well as hotel and tourism. The target of small enterprises or microfinance is to create jobs by integrating into the mainstream of industrial development. Major manufacturing of SMEs or microfinance institutions are located in the central part of the country in Ethiopia, particularly around

the capital city of Addis Ababa. However, some SME firms are gradually widening to vast regions of the country, emerging cities such as Addis Ababa, Dire Dawa, and Awasa among others based on industry park expansion in particular.

This work aims to highlight the potential of Islamic finance as an alternative (Hersi, 2018) financing system for SMEs and microfinance and banking for better financial inclusion in Ethiopia. Crowdfunding is a fintech-based resource allocation tool (N. Alam et al., 2021, p. 225) that is currently accepted as a form of alternative finance to promote start-up businesses (AGEB, 2021; Cunningham, 2012), microfinance, SMEs, and social-based economic empowerment projects (Cunningham, 2012; Shahrul & Bin, 2022). The proposal's objectives are to demonstrate the importance of Islamic finance in funding real economic activities for sustainable development (Kraus et al., 2020).

Table 3.9: The Proposed Definition of SMEs in The New Era of Ethiopia

Size of the company	Sector	Numbers of the workers/employees	Whole Assets
Micro	Firms|Services	<10	<\$10,000 (500,000 birr)
			<\$5,000 (250,000 birr)
Small	Firms|Services	11 – 50	<\$100,000 (5,000,000 birr)
			<\$50,000 (2,500,000 birr)
Medium	Firms|Services	51 – 500	<\$500,000 (25,000,000 birr)
			<\$250,000 (12,500,000 birr)

Source: Author's

3.9 Sustainable Global Development and Microfinance

Globally, the international community agreed on three major issues in consensus on the Paris Climate Change Agreement, the Agenda of SDG until 2030, and the financial development summit held at Addis Ababa, Ethiopia in 2015 (Sachs et al., 2022, p. 9). As a result, SDGs are 17 global goals to end poverty, hunger, and improve healthcare, education, gender equality, protect the environment, and improve maternal health. The

primary objective of SDG is to eradicate poverty and serve the population suffering from hunger. The global SDG index and dashboard report of 2022 highlights several sustainable development crises, including climate and biodiversity crises, as well as health and security crises, that have been occurring around the globe (Sachs et al., 2022, p. 9).

Ethiopia has planned a five-year strategy called the Growth and Transformation Plan Two (GTP-II). Its aim is to create numerous job opportunities and ensure fair wealth distribution. This will be achieved through the expansion of micro-enterprises and sizable industries. The "Micro and Small Enterprise Development Policy Agency" will support urban economic growth in Ethiopia to assist in creating job opportunities and transform the country into an industrialized economy with middle-income. The Sustainable Development Goals prioritize job creation and employment opportunities, which are closely linked to SMEs Development Policy. Ethiopia has set a clear vision, mission, objectives, and policy directions to achieve this goal by 2020, but it has not met the target yet. The SME development strategies include supporting micro-enterprises' development roadmaps and implementing Financial and Credit Services Support Strategies (FDRE, 2011). GTP II proposes enhancing microfinance organizations' services for financial intermediation. Policies also promote financial sectors like banks and MFIs through expanding capital and branch services. Microfinance has the potential to provide 50% of financial services for rural society, whereas the Developmental Bank of Ethiopia provides long-term finance relying on saving bonds (National Planning Commission, 2016).

In the current situation, Green financing is an excellent field for job creation. Financial institutions such as banks, referred to as "Green banking," that participate in green investment, focus not only on profit maximization but also on value maximization and addressing environmental protection concerns (Rizzello, 2022). Contrarily, mainstream or commercial-based banks can extend their activities toward green finance with the aim of increasing the value of their investors' capital (Rizzello, 2022). Microfinance is a crucial instrument for green financing, as it can enhance social, economic, and environmental impacts on society by providing funds to low-income segments.

3.10 Role of Zakat in Islamic Social Financing and Poverty Alleviation

In this part, the significance of zakat in Islamic social finance is associated with supporting financial pain societies, particularly to improve the wealth distribution between the rich and the poor according to the Divine Almighty rule based on Islamic law to alleviate poverty. Thus, the zakat overview, contemporary argument related to it, and concluded remarks are discussed.

3.10.1 Introduction and Overview of Zakat Related to Poverty Alleviation

Zakat is an obligatory duty that ensures the poor have a rightful share of the wealth possessed by the rich. The Quran, as well as the sunnah or teaching of Prophet Muhammad, emphasized the importance of it being distributed directly to those who are in need and other deserving recipients, either in cash or kind. This has been widely acknowledged by scholars, researchers, and policymakers as a crucial means of poverty alleviation tools at a larger scale. Numerous studies have supported this view, such as the promotion of business zakat for the betterment of society in Bangladesh (Hoque, 2022), the use of Islamic microfinance to bring about economic stability and social change (Samad, 2014), (M. A. Haneef et al., 2015), (S. I. Abdullahi, 2019), compliance with zakat regulations (Bin-Nashwan, Abdul-Jabbar, Aziz, & Sarea, 2020), the potential role of blockchain technology in integrating zakat management systems in Malaysia (Mohd Nor et al., 2021), and many more.

3.10.2 Issue Related to Zakat Compliance in the Contemporary Period

Zakat is a significant social financing tool that can be effectively utilized if administered properly. In order to ensure the proper administration of zakat, the collection and distribution of zakat payments should comply with shari'ah regulations (Puteri et al., 2022). This compliance is known as zakah compliance, and it is essential for social financing under the regulated zakat system (Sawmar & Mohammed, 2021).

Despite its traditional use as a means of wealth redistribution.⁴⁰ Zakat is an obligatory duty of every Muslim as well as a form of transfer of a certain amount of goods (i.e., mal which includes wealth and income) from rich to poor and needy people (A. G. Ismail et al., 2022, p. 67; Kahf, 1989, p. 3). Some scholars have suggested that zakat can also be utilized as a financing tool for business entities. For example, it has been proposed that zakat could be used to address non-performing loans, guarantee funds, or equity in Islamic microfinance,⁴¹ or create infrastructure and employment opportunities for youth empowerment.

Islam encourages entrepreneurship as well as trade activities to overthrow poverty for people of low income. There is still a great deal of confusion surrounding the principles of zakat ⁴², however, in understanding and applying them correctly in particular. It is crucial to ensure zakah compliance in order to maintain the integrity of the regulated zakat system (Sawmar & Mohammed, 2021).

Based on an analysis of the literature review some studies related to; the regulated zakat system (Sawmar & Mohammed, 2021) and zakat compliance principles are like (Al Jaffri Saad & Haniffa, 2014; Bin-Nashwan et al., 2021; Bin-Nashwan, Abdul-Jabbar, Aziz, & Sarea, 2020; Bin-Nashwan, Abdul-Jabbar, Aziz, & Viswanathan, 2020; Sawmar & Mohammed, 2021).

The recipient of zakat in one way or others he/she involved in the business arena may be or not. However, the zakah payers have no direct clues to pay zakah in line with social projects as well as business commercial activity in the principles of zakat distribution. So far some studies' outcomes show, particularly zakah should be injected into business and managed for social projects to enhance social well-being, especially for those underprivileged (Hoque, 2022). Ultimately, the goal of zakat is to transfer

⁴⁰ Ahmet Suayb Gundogdu, *A Modern Perspective of Islamic Economics and Finance* (Istanbul Zaim University, (2018), 120.

⁴¹ Ahmet Suayb Gundogdu, "Poverty, Hunger and Inequality in the Context of Zakat and Waqf" *darulfunun ilahiyat* 30/1, (June, 2019): 49-64.

⁴² Ibid.

wealth from the rich to the poor or needy, and it can serve as a mechanism for adjusting market imperfections in the current economy.⁴³

As an initiative, this work draws on the conceptual framework developed by (Mukerji, 2013), which focuses on the use of ICT for development in rural India. The framework is customized to align with the objectives and research methods of this particular work.

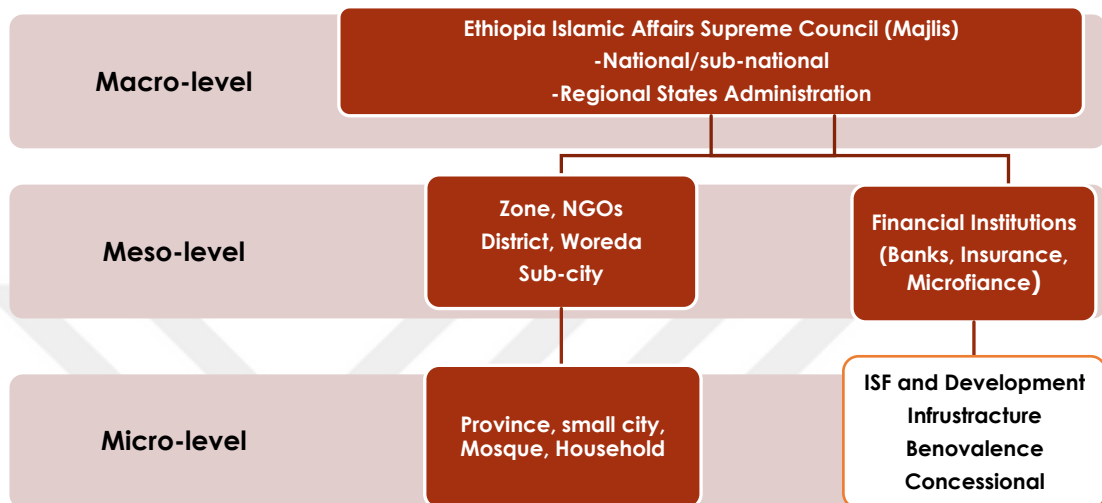


Figure 3.1: Waqf (Awqaf) and Zakat Institutions Conceptual Framework

Source: Modified Based on (Mukerji, 2013)

Accordingly, the (Sawmar & Mohammed, 2021), research proposes a conceptual framework model that enhances the zakat governance system, zakat compliance payment, and trust-building among various stakeholders. The study's findings reveal a model consisting of four governance mechanisms: 1) zakat institutions higher officers (board members) and zakat institutions administration, 2) transparency practices, 3) management staff practices, and 4) procedural justice in the light of zakat compliance.

⁴³ Ibid.

3.11 Conclusion

This study provides an overview of the Islamic Microfinance product and an analysis of the literature. It is recommended to gain a deeper understanding of Islamic financial products by reading Muhammad Taqi Usmani's⁴⁴ and Monzer Kahf's⁴⁵ books. Islamic economics and finance, including socially responsible finance, impactful investment, and developmental projects, are linked to the real economy rather than just financialization. They have great potential and play a crucial role in the financial sector by promoting real financing based on channeling to genuine finance instruments, which is essential in the current period to overcome serious financial turmoil and crisis. Therefore, empowering, adopting, and promoting integrated Islamic crowdfunding cash waqf modeling instruments can benefit vast societies, including emerging economies, by fostering socioeconomic growth and development.

In Ethiopia, ISFs such as zakat, waqf, sadaqah, and benevolent funds have lacked well-structured systems, at both national and local levels, throughout history. It mainly relied on individual initiatives or fundraising campaigns organized by prominent Muslim scholars to support poor people affected by natural disasters or other causes. Currently, it is possible with the advent of technology to create well-designed systematic approaches and procedures to resolve these issues. The formation and operation of such institutions at the macro and micro levels help numerous poor families in the country take care of them, and also they benefit properly. As a result, the nation also enables proper identification of the real needy and poor households through an integrated workforce and partnership ecosystem. These financial institutions closely assist beneficiaries to improve saving deposits, money circulation, and investment in the long term to transform them gradually as well.

⁴⁴ Muhammad Taqi Usmani, *An Introduction To Islamic Finance* (Kluwer Law International; 1st edition, January 2002).

⁴⁵ Monzer Kahf, *Islamic Finance Contracts* (CreateSpace Independent Publishing Platform; 2nd edition, June 2015).

CHAPTER IV

PROMOTING FINANCIAL INCLUSION THROUGH ISLAMIC MICROFINANCE IN ETHIOPIA

This chapter aims to identify the research's purpose, sample size, and model, as well as its hypotheses. Besides, to understand the relationship between them, it is an endeavor to respond to the following research questions;

RQ 1: Does financial (awareness, knowledge, behavioral change, and income level) positively and financial uncertainty negatively influence financial inclusion through IsMF services adoption?

RQ 2: Does financial attitude mediate the relationship between financial (awareness, knowledge, uncertainty, behavioral change, and income level) and financial inclusion through IsMF services adoption?

This chapter is organized into two sections. Section one employs research methodology and descriptive analysis to examine data distribution, including reliability and validity testing relying on the concept of financial development such as financial awareness, knowledge, uncertainty, behavioral change, and income level as well as trying to create a connection between those factors and describe how it could be mediated by financial attitude basis on RQ1 and RQ2. The study's findings are thoroughly discussed and concluded.

4.1 Research Importance and Objectives

In contemporary periods inclusive economic growth and sustainable development, especially financial inclusion, are fundamental concepts. As a result of numerous studies and the majority notion, it is potentially possible and crucial to alleviate poverty and minimize income inequality among people toward future investment, change consumer behavior quietly, and cope with financial risks properly (Demirguc-Kunt et al., 2017). So far, financial inclusion has been a recently indulged agenda or topic

(Mialou et al., 2017), particularly after the scandal of the financial crisis in 2007-09 around the globe. This means, nowadays, it is the main socio-economic development project agenda not only in the economically developed world but also in economically emerging countries, *Africa* in particular. For instance, various African countries including Ethiopia are commencing steps forward to adopt financial inclusion as their main national strategy agenda since then (Desalegn & Yemataw, 2017, p. 34; Le et al., 2019).

Historically, the issue of FI was brought to the table as a discussion agenda at the G-20 summit upheld in Seoul 2010 in South Korea. Financial inclusion was the leading global development essence or thematic area after that day, which is included in the 17 sustainable development goals as well (UNSGSA, 2016). Nowadays, to adopt financial inclusion the agenda of SDG is also very pivotal and the SDG is working conjointly with inclusive finance including Islamic Fintech (N. Alam et al., 2021, p. 225). Thus, settling enabling environment for the right tool to mobilize resources via appropriate platforms Islamic social financing (ISF) including *grants*, which are called *zakat* or transfer of wealth from have to have not, *Qard Hasan* or which means a benevolent loan, and commercial-priced loans as a key elements (Gundogdu, 2018; pp. 381-382). The prime pivotal role of Islamic finance is to enhance financial inclusion (Obaidullah, 2008) and assist the economy in strengthening sustainable developmental goals.

Recently, the Ethiopian government introduced new regulations to open up the financial ecosystem and enhance financial inclusion. This move welcomes foreign financial firms to become licensed and operate officially in the country's financial history for the first time. Thus, it is expected that it will provide financial products and services and promote the financial market's rise in size. Improving financial regulations has played a significant function in sustainable growth and financial stability (Yaş, 2023, p. 403). This has created opportunities for the Ethiopian financial industry, which is still in an emerging stage in terms of financial industry enlargement. To support such emerging markets, it is crucial to create capacity-building programs and training facilities to increase society's financial literacy. Unfortunately, the financial literacy level of financial stakeholders and operators, particularly in Islamic finance sectors, is low. Therefore, this study aims to fill this gap and contribute

conceptual theory, framework, guidance, and structure for policy-makers, stakeholders, and operators in the IBs and ISF industry.

The purpose of this research is to establish a methodical strategy that will enhance Islamic microfinance and other social financing services, like SMEs, to propel financial inclusion. This necessitates tackling issues related to resource gathering and distribution, as well as advocating financial literacy and comprehension in the light of the theory of planned behavior. Fintech solutions can be instrumental in augmenting access to financial services, including virtual account possession, digital money transactions, and beautiful loaning. For instance, it could be advantageous to grant licenses and payment services to foreign entities, like Safaricom M-Pesa Mobile, after the triumph of local mobile money transfer services, such as TellBirr in Ethiopia. The objective of this study is to analyze the link between financial aspects (awareness, knowledge, uncertainty, attitude, behavioral transformation, and income level) and financial inclusion, to promote economic empowerment through Islamic Microfinance (IsMF) and poverty alleviation in Ethiopia.

4.2 Research Population and Sample Size

The population of this research includes Islamic microfinance officers, NGOs, and members of the business community such as individuals and SME users, among others. To obtain relevant respondents, top managers of small enterprises were reached through email addresses collected from the NBE website and other sources. A snowballing sample technique (Krippendorff, 2018, p. 121) was used to reach potential participants through voluntary sharing of the survey on social media and other online platforms. Survey questionnaires were distributed through email and social media platforms.

Out of a total of 2259 respondents, only 2202 were considered valid and used for final data investigation. Information from 57 respondents was removed to clean data and exclude irrelevant information. The business communities, IsMF managers, IBs, and other staff who responded to the survey were thanked. For analyzing and interpreting research outcomes, confirmatory factor analysis (CFA) and structural equation modeling (SEM) were favored to determine multivariate relationships and test the model's fitness and interpretation (Grace, 2006, p. 10).

4.3 Assumptions and Limitations of The Study

The study focused on organized Islamic Microfinance Institutions (IsMFs) in Ethiopia, which included IFB window service providers in SMEs, Conventional Banks, Islamic full-fledge service providers or IBs, and NGOs, among others. It aimed to involve prominent IsMF higher managers, staff, and IsMF users, practitioners, or beneficiaries who were selected through the convenience sampling method.

The outcomes of this research cannot be generalized due to, which is associated with some limitations. To begin with, the sample size and some respondent errors may often to included in this study and may not adequately represent the entire target population group. In addition, there is room for sampling size bias in the research outcome through a specific recruitment method, i.e. snowballing, which may lead to some unexpected sample size bias on the results findings. Furthermore, measurement errors are another limitation of this study. Such kind of error may also lead to inaccurate interpretation, affecting the reliability and validity of the study's conclusion to some extent. Last but not least, other limitations such as reporting bias, time constraints bias, lack of control over data collection via social media, and external validity can be limitations to apply to the overall results of this study.

4.4 Research Model and Hypotheses

The process of research involves using a specific question to gather relevant information and answering it step-by-step (Billah, 2022; Creswell, 2014). In this regard, this study utilized the SPSS Amos 22 software program, which specializes in systematic equation modeling (SEM) in particular. SEM includes confirmatory factor analysis and path analysis methods (Fan et al., 2016, p. 2). Qualitative research methods were also used to explore knowledge related to selected experimental team groups (Creswell, 2007, 2014). The population and sample size were determined using non-probability and random techniques.

To answer the research question, eleven hypotheses were proposed and tested based on 2202 valid datasets. Mixed methods, document reviews, and descriptive analysis were also employed to analyze the study results. The study established a well-organized framework or model, that supported the hypotheses.

Based on the framework of the relationship between the variables of this study, the Fig 4.1 model, which is well-structured, and the hypotheses of the study were constructed as follows:

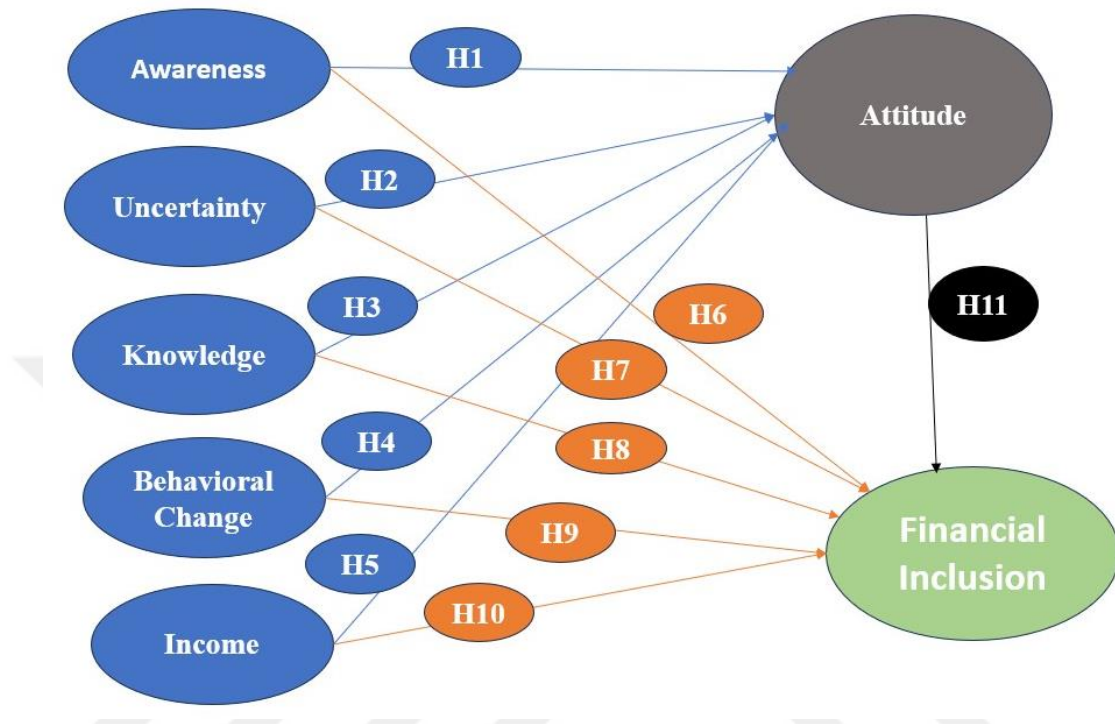


Figure 4.1: Financial Literacy vs Promoting Financial Inclusion Through IsMF

Source: Modified Research Model Based on Different Sources

The research question was divided into two categories: demographic information and seven factors segment. The demographic information consisted of eight questions, while the seven factors included five independent variables, one dependent variable (financial inclusion), and one mediation factor (attitude). The independent variables were financial awareness, uncertainty, knowledge, behavioral change, and income level. The survey consisted of 32 questions, with the whole data collection instrument including demographic and other factors questionnaires totaling 40 items. (see section Appendices 2).

4.4.1 The Research Hypothesis

The research inquiry of this study is organized as follows, which is composed of eleven hypotheses in total.

H1: There is a positive relationship between Awareness and Attitude.

H2: There is a negative relationship between Uncertainty and Attitude.

H3: There is a positive relationship between Knowledge and Attitude.

H4: There is a positive relationship between Behavioral change and Attitude.

H5: There is a positive relationship between Income level and Attitude.

H6: There is a positive relationship between Awareness and Financial Inclusion.

H7: There is a negative relationship between uncertainty and Financial Inclusion.

H8: There is a positive relationship between knowledge and Financial Inclusion.

H9: There is a positive relationship between behavioral change and Financial Inclusion.

H10: There is a positive relationship between Income level and Financial Inclusion.

H11: There is a positive relationship between Attitude and Financial Inclusion.

4.5 Research Method and Data Analysis

In this study, the analysis of the hypotheses employed in the studies were demographic characteristics and datasets that enable the determination of financial literacy to support, determine, and promote FI through adopting IsMF services sectors. In addition, the reliability and validity of the gathered dataset were analyzed using the SPSS Amos 22 version software program. Besides, research normality assessment testing tools like Cronbach's Alpha, one-way ANOVA analysis, and correlation analysis, regression analysis among others including CFA and SEM underlined to test whether the proposed models of the study are at the goodness-of-fit or not.

As results indicated in the previous research model design section to acquire the necessary value and relevant model the prime of the primary data was executed first by cleaning irrelevant data and excluding the reluctant information from this study.

Furthermore, another source such as a literature review or document analysis was done on the subject, and other crucial information on the subject was obtained by examining books, book chapters, theses, prereview articles, and other documents from domestic and foreign libraries as well as websites searching underlined relying on various sources thought included in the study. Later on, based on the theoretical framework of the research study obtained data's descriptive analysis was carried on accordingly. Throughout the study data collection, to find out the individuals or focus groups who voluntarily participated in the research attempt to inform and be aware of the subject of the research that is only applied for scientific purposes. Last but not least, data collection was conducted through the voluntary participation of individuals or focus groups, with the necessary permission for the survey obtained.

4.6 The Analysis & Evaluation of The Research Strategies

This study analyzes the hypotheses used to determine financial literacy and promote financial inclusion through the adoption of IsMF services in various sectors. The demographic characteristics and datasets used to support and determine financial literacy were analyzed for reliability and validity accordingly. Testing tools, including Cronbach's Alpha, one-way ANOVA analysis, correlation analysis, regression analysis, CFA, and SEM, were utilized to test the proposed models of the study for the goodness of fit (Section 1.4.4, Table 1.1). To obtain the necessary value and relevant model, the primary data was cleaned by removing irrelevant data and excluding reluctant participants, 57 respondents participated, whereas only 2202 were valid resulting in a total of 2259 participants. Literature reviews and document analyses were conducted to gather additional information from various sources, including domestic and foreign libraries and websites. A descriptive analysis of the obtained data was carried out based on the theoretical framework of the research study.

4.6.1 Variables and Measures

The survey questionnaire used in this study was sourced from previous related studies that were approved in terms of their validation and reliability. The survey questionnaire consists of two main parts: a demographic profile of the respondent's

questions and dependent and independent variable measurement items. The first part includes eight items, while the second part consists of 32 questions sourced from various studies. Financial inclusion serves as the dependent variable, while financial awareness, knowledge, uncertainty, behavioral change, and income level are the independent variables. Attitude factors serve as a mediation variable in this research. On the other hand, the survey questionnaire items scales were made with a Likert-type 5-point rating, which is 1 to 5 degrees of response such as (5) I strongly agree, (4) Agree, (3) Undecided (neutral), (2) Disagree, and (1) Strongly Disagree represent and also evaluated accordingly.

The first part, which is a demographic profile of respondents' questions consisted of eight items of questions, whereas a six-item scale of questions was sourced from Aziz & Afaq (2018), a studies article,⁴⁶ and the rest two questions were added by an author. The second part of the survey questionnaire has been composed of 33 questions. The first three questions (Q1-3) are also collected from Aziz & Afaq's (2018) studies which are indicators of awareness factors. Out of thirty-three questions, twenty questions (Q4-23) were gathered from Purwanto et al (2022) studies⁴⁷ relying on and (Q4-7, Uncertainty, Q8- 11- Knowledge, Q12- 17- Attitude, and Q18-23- Behavioral change) respectively. Survey questions (Q24-29) stand to measure income factors which were sourced from a study undertaken by Maouloud & Abdullah (2021), a research article⁴⁸. The last part of the survey questionnaire (Q30-33) was also sourced from Rastogi &

⁴⁶ Shahab Aziz & Zahra Afaq, *Adoption of Islamic banking in Pakistan an empirical investigation* (Cogent Business & Management, V. 5(1), (2018).

⁴⁷ Purwanto et al., *Adoption of Islamic microfinance in Indonesia an empirical investigation: an extension of the theory of planned behavior*, Cogent Business & Management, (2022).

⁴⁸ Maouloud & Abdullah (2021, *Impact of using Islamic Microfinance Products on Mauritanian Microentrepreneurs: Income Evidence from PROCAPEC- Nouakchott* published by "TUJISE"

Regabiruntha E. (2018), studies.⁴⁹ Therefore, in this study, financial inclusion (FI) is conducted as a dependent variable, while variables such as financial awareness, knowledge, uncertainty, behavioral change, and income level are the independent variables. Additionally, attitude factors serve as a mediation variable in this research as well.

Research Equations

$$FI = \beta_0 + \beta_1Aw + \beta_2Un + \beta_3Kw + \beta_4BC + \beta_5In + \varepsilon_t, \text{ whereas,}$$

FI= Financial Inclusion

β_0 = coefficient (constant)

β_{1-5} = coefficient of independent variables (Aw= awareness, Un= uncertainty, Kw=knowledge, BC= behavioral change, and In= Income level) respectively

ε_t = denotes total error terms

4.7 Reliability and Normality Assessment of the Research Analysis

Cronbach (α) may also be called as "Cronbach Coefficient," and in the research concept, it is referred to as a "Coefficient of Confidence" and also was developed by Cronbach (1951). The Cronbach (α) or Cronbach coefficient is obtained by "Dividing the sum of the variances of the item in the scale by the general variance weighted standard change average" (Özdamar, 2002, p.224). On the other hand, reliability analysis shows how much confidence can be given to the results of the underlying research. So the reliability of the scale depends on the alpha coefficient that is interpreted as follows: If $0.00 < (\alpha) < 0.40$, it is not reliable, If $0.40 < (\alpha) < 0.60$, the reliability of the scale is low, if $0.60 < (\alpha) < 0.80$, the scale is most likely highly reliable, and if $0.80 < (\alpha) < 1.00$, the scale is highly reliable (İpekçi, 2013, p. 58).

⁴⁹ Rastogi & Regabiruntha E. *Financial inclusion and socioeconomic development: gaps and solution*, (2018).

Table 4.1: Reliability Analysis of Cronbach Alpha Results

Items	Scales Numbers	Cronbach Alpha	N
Awareness	3	0.896	2202
Uncertainty	3	0.754	
Knowledge	4	0.788	
Attitude	6	0.904	
Behavioral Change	6	0.904	
Income Level	6	0.900	
Financial Inclusion	4	0.919	

4.7.1 Awareness and Uncertainty Reliability Scales

In this section, according to a research article titled "Adoption of Islamic Banking in Pakistan: An Empirical Investigation" by Aziz and Afaq (2018), the awareness and uncertainty scale items were analyzed. The composite reliability (CR) of awareness was found to be 0.893, while the CR of uncertainty was 0.718 (S. Aziz & Afaq, 2018, p. 8). However, the Cronbach alpha values for awareness and uncertainty in this study were 0.896 and 0.754 respectively. The uncertainty value was obtained after omitting item 3 and item 5 to increase the Cronbach alpha value to meet the requirement of being greater than 0.7.

4.7.2 Knowledge, Attitude, Behavioral Change Reliability Scales

The majority of reliability scales regarding Cronbach Alpha in this study have been accepted relying on the requirement of reliability scales which is anticipated to be greater than 0.7. The Cronbach's Alpha value of the previous study conducted by Purwanto et al. (2022) in the literature reviews for knowledge, attitude, and behavioral change findings was 0.870, 0.900, and 0.884 respectively. However, the value of Cronbach's Alpha of this study as demonstrated in Table 4.1, for knowledge (0.788),

attitude (0.904), and behavioral change (0.904). As a result, the value of Cronbach's Alpha scale of all triple factors is above the requirement and it is acceptable.

4.7.3 Income Level Reliability Scales Assessment

The study conducted by Maouloud & Abdullah Othman (2021), shows that it was deleting "Item 2 and Item 3" to improve the value of Cronbach's Alpha of income level to obtain 0.970 (Maouloud et al., 2021, p. 229). On the other side, in this study, without omitting any items from the datasets the value of Cronbach's alpha acquired is equal to 0.900. So far the value obtained in this research is good and acceptable based on the requirement criteria and keeping the entire items in this section without deleting.

4.7.4 Financial Inclusion Measurement Instrument Scales Assessment

The previous study revealed that the composite reliability of the CR of the financial inclusion (FI) is (CR= 0.61) using CFA methods (Rastogi & E., 2018, p. 1132). Albeit, the result obtained in this study shows that the value of Cronbach's alpha is equal to 0.919. This outcome demonstrates relying on the required criteria of reliability and validity Cronbach alpha is greater than 0.7, and the value is equal to ($\alpha= 0.919$) which means it is highly acceptable. Broadly, the reliability and validity of this study are underlined both in Cronbach alpha techniques, CFA, among others for testing the goodness-of-fit of the model is applied step-by-step respectively. With due regard, in entire methods cared on the obtained value is supported and acceptable relying on the requirement scales. In this study, the Cronbach alpha value of entire factors is illustrated in Table 4.1.

4.8 Demographic Analysis and Findings of The Study

In this section, the demographics and detailed statistical description analysis of the study results have been discussed and presented as follows:

4.8.1 Demographic Descriptive Statistical Analysis

The demographic factors segments include gender, age, marital status, education level, religion, occupational status, income level per month, and the types of accounts (services) as a whole. In this section, the findings of the study are presented statistically in the respondent's numbers (n), the frequency of participants or respondents, and the value of the percentages (%) that is illustrated in Table 4.2.

Table 4.2. Frequency Analysis on Demographics

Categories	Dimension	n	Percentage (%)	Cumulative (%)
Gender	Male	1945	88.3	88.3
	Female	257	11.7	100
Age	21- 30	974	44.2	44.2
	31- 40	998	45.3	89.6
	41- 50	200	9.1	98.6
	Above 50	30	1.4	100
Religion	Islam	2163	98.2	98.2
	Christian	36	1.6	99.9
	Waqefata	3	0.1	100
	Others	-		
Occupational Status	Public sector	790	35.9	35.9
	Private sector	571	25.9	61.8
	self-employed	588	26.7	88.5
	student	253	11.5	100
	other	-		
Martial status	Single	840	38.1	38.1
	Married	1327	60.3	98.4
	divorced	35	1.6	100
Educational level	High school	199	9.0	9.0
	Diploma	215	9.8	18.8
	Bachelor's	1170	53.1	71.9
	Master's	574	26.1	98.0

	Ph.D.	44	2.0	100
Income level per month	< \$100	593	26.9	26.9
	\$101 - \$199	576	26.2	53.1
	\$200 -\$299	347	15.8	68.8
	\$300-\$500	304	13.8	82.7
	> \$501	382	17.3	100
Account types (service)	Saving(Wadia/Amanah)	1671	75.9	75.9
	Credit/Murabaha	63	2.9	78.7
	Money transfer/Hawala	83	3.8	82.5
	Insurance	1	0.0	82.6
	Mixed	209	9.5	92.6
	Other	175	7.9	100
Total	N	2202	100	100

Of the respondents participating in the research, 88.3 % (n= 1945) were male, while 11.7% (n= 257) were women. The number of women involved in this study is much less than the rate of male participants. According to this finding, it is considered that most of the managers, staff, and users in microfinance or SMEs are male. In this respect, it is possible to say as still, male entrepreneurs have been more active and more influential than female entrepreneurs in the microfinance sectors. Last but not least, the overall awareness of female participants in filling the survey dataset has been also more likely less than male participants.

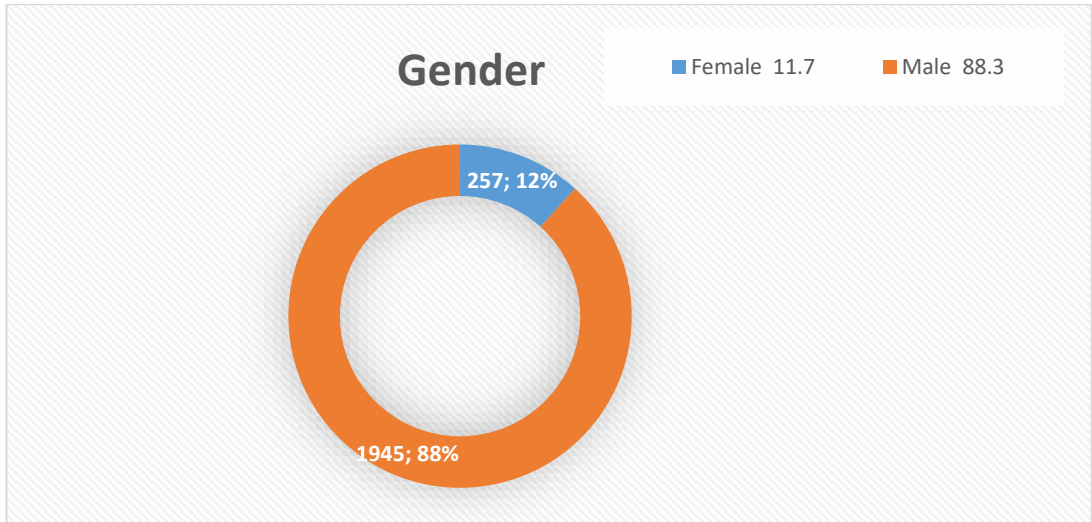


Figure 4.2: Frequency of Gender

Of the respondents, the age distribution who participated in the study was 31-40 years with 45.3% (n= 998) being the highest. The age ratio between 21-30 is followed by a ratio proportion of 44.2% (n=974) as demonstrated in Table 4.2. Besides, the rates of participants aged 41-50 and above were found that 9.1% (n= 200) and 1.4% (n= 30) respectively. Depending on the outcomes, it is possible to say that 89.6% of the participants are aged under 40 (n= 1972), which means that the majority of the microfinance users, leaders, and beneficiaries are younger individuals. As far as concerned the outcome of this work revealed that the motivation of elders is less than younger respondents towards the initiative of participation in entrepreneurial activities as far as getting older.

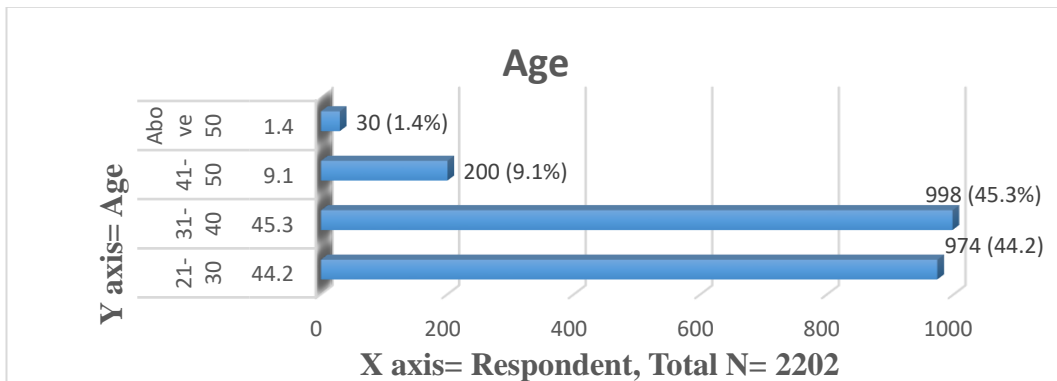


Figure 4.3: Frequency of Age Distribution

Based on the data analysis of the respondents who participated in this study majority are from the Islamic religious group with a participation rate of 98.2% (n=2163). The other religion distribution rate is shared between Christians with 1.6% (n=36) and others, which is referred to as an Ethiopian ancient indigenous rely on culture-based belief in the whole creature known as “Waqefata” with 0.1% (n=3).

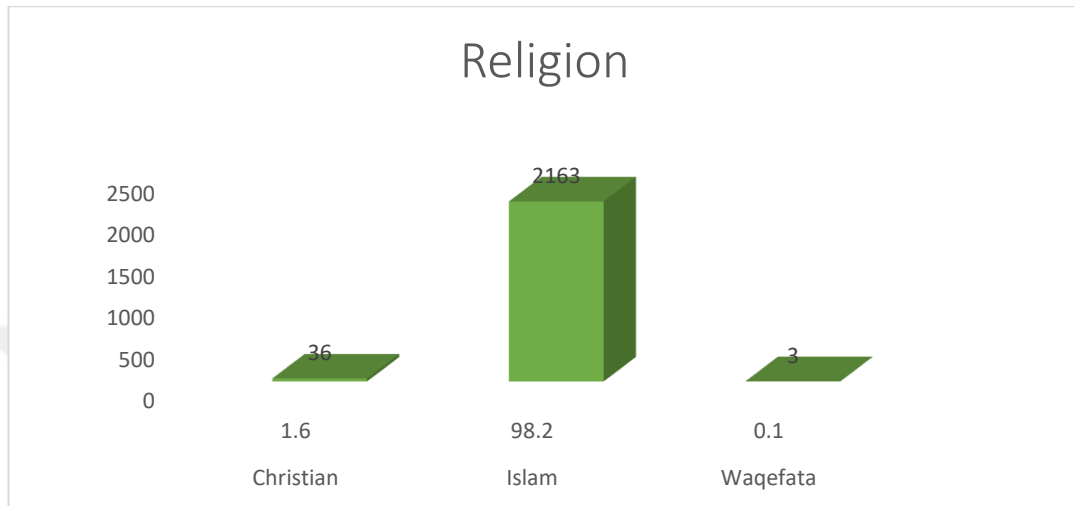


Figure 4.4: Religion Rate of Distribution

Description of respondent's rate distribution ratio related to occupational status of both public sector and self-employed was scored 35.9% (n= 790) and 26.7% (n= 588) respectively. On the other hand, the private sector respondent was 25.9% (n= 571), whereas the student respondent was 11.5% (n= 253). With due regard, it is possible to say that the microfinance or SME users and access to it are from a heterogeneous or variety of occupation backgrounds aspect.

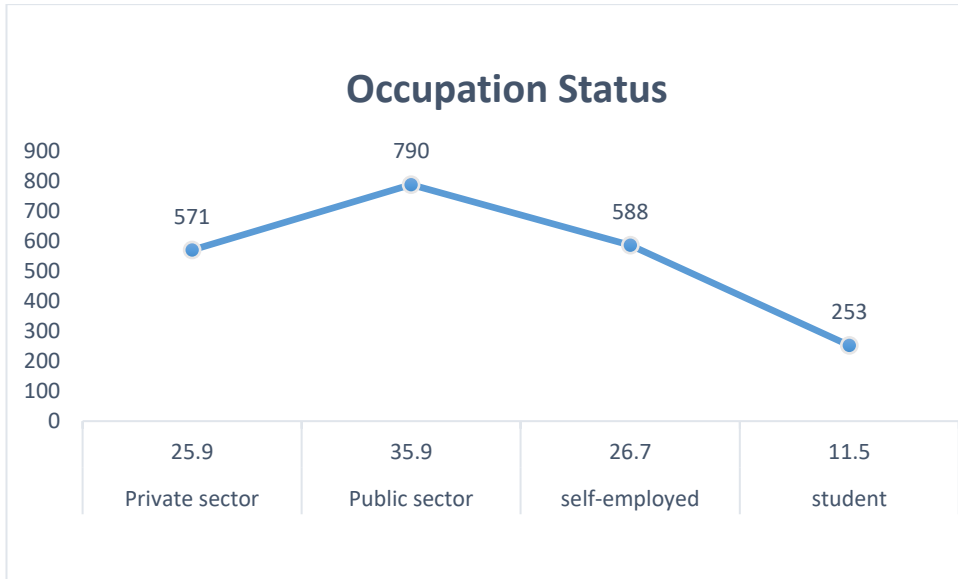


Figure 4.5: Occupation Status Rates Distribution

In this study, figure 4.6 shows, that the marital status participation rate of married people was 60.3% (n= 1327) and the single rate 38.1 (n= 840), whereas the divorced rate distribution was 1.6% (n= 35). Relying on Figure 5.6 results the respondents' distribution rate of married individuals is more motivated by entrepreneurial activities like microfinance or SME products and services than by single individuals.

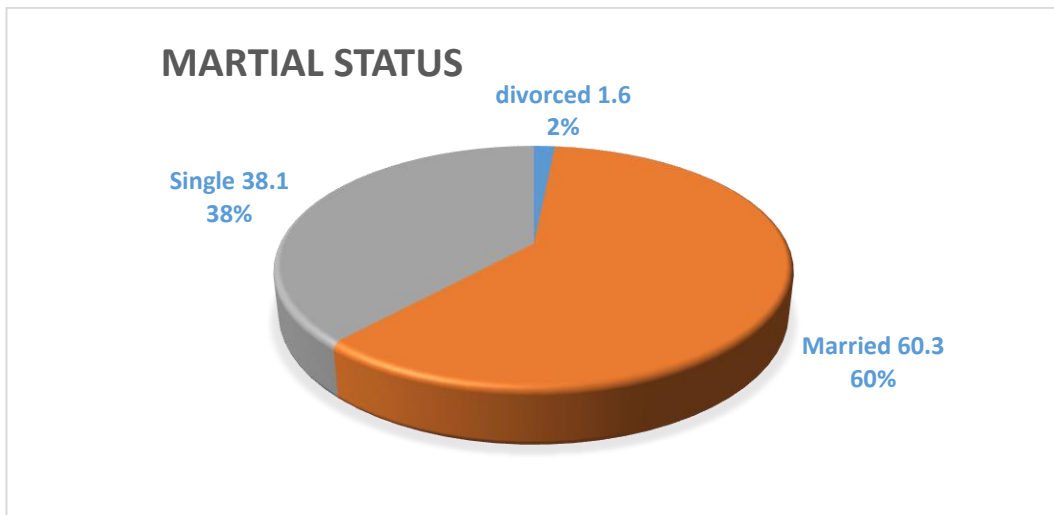


Figure 4.6: Martial Status Distribution

In Figure 4.7, it is shown that the Bachelor's degree stage respondents have a higher distribution rate of educational backgrounds, with a rate of 53.1% (n=1170). Followed

by the Master's degree holders with a rate of 26.1% (n= 574). The respondent rate of certificate level is 9.8% (n= 215) and the high school graduate respondent rate is 9.0% (n= 199) respectively. And also, the Ph.D. level participant is rated as 2.0% (n= 44). Meanwhile, it is possible to iterate that the majority of bachelor-level educated individuals are more employed in entrepreneurial activities of the microfinance business sectors in this study.

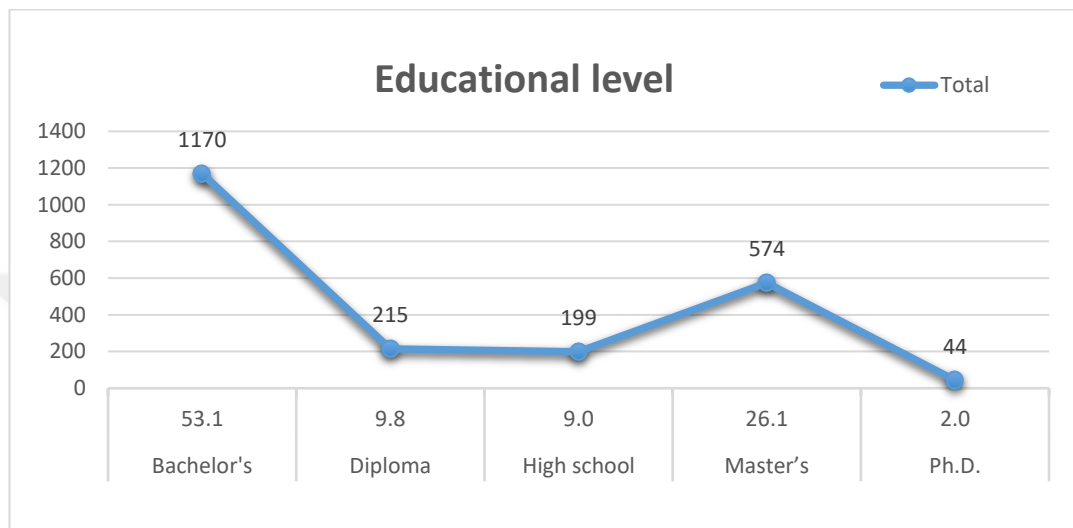


Figure 4.7: Educational Level Data Distribution

As displayed in Figure 4.8, of the respondents who participated in the study, the rate of monthly income positions of those who earned less than \$100 was rated at 26.9% (n= 593), followed by monthly income generated between \$100 - \$199 that was rated as 26.2 % (n= 576). Concerning that, the study results show more than half of the participants rated 53.1% (n= 1169) are earning less than \$200 per month. Albeit, on the other side, the rate of respondents who generate their sustenance more than \$500 per month is rated as 17.3% (n= 382).

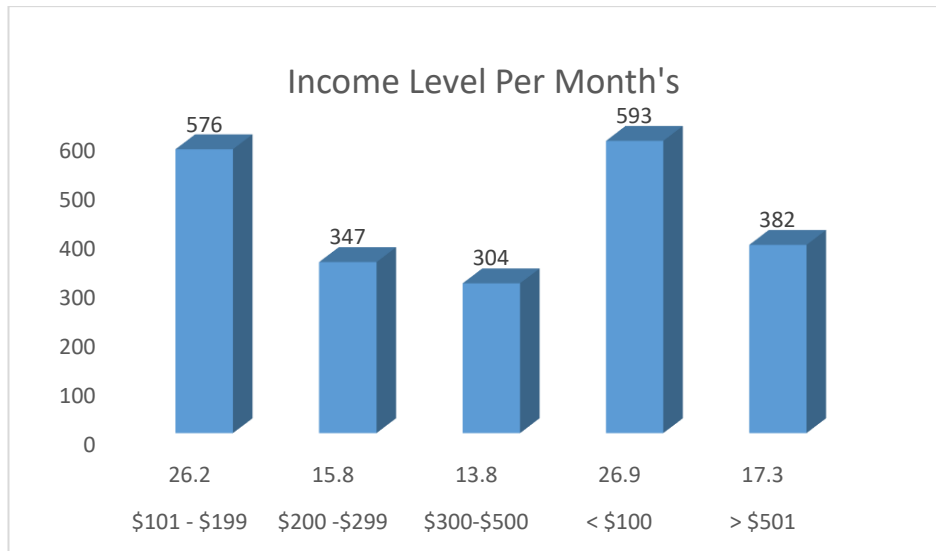


Figure 4.8: Income Rate Distribution

As shown in figure 4.9, the distribution rate of account services types or favored financial services of respondents in the microfinance or SME sectors mainly aligned with saving or amanah and Wadia is rated 75.9% (n= 1671). On the other side, in this study, the respondent to the insurance account preference was rated null, which is interesting. Besides, the rate of hawala or money transfer account users and credit or Murabah financing were rated as 3.8% (n= 304) and 2.9% (n= 63) respectively. The mixed services accounts for preferred users rated as 9.5% (n= 209). Based on these results, it is possible to iterate that, the majority of respondents favored saving or (Wadia and Amana) which is dominating Islamic finance and banking and MFIs sector as usual too. In addition, the findings of this study indicate that insurance services sector awareness is none in the microfinance industry as well as requires immediate action to encourage awareness of society in this regard.

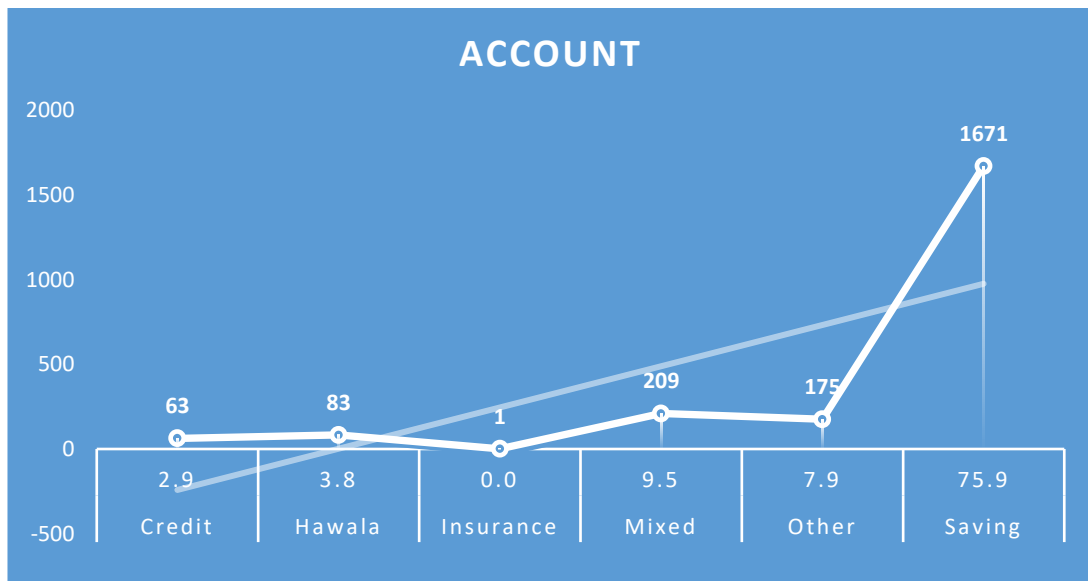


Figure 4.9: Account Types Rate Distribution

4.8.2 Descriptive Statistics Results of Variables

The normal distribution assumption of any dataset test is discussed in various sources such as standard deviation, skewness, and kurtosis. The normal distribution assumption of research outcomes referred to in innumerable sources align with having a skewness of value between ± 3 (± 2) as well a kurtosis value of ± 3 (± 7) respectively and the value of standard deviation also should be between ± 1.96 different from zero is acceptable (Byrne, 2013, pp. 121–123). In this sense, the small value of standard deviation is better interpreted as consistent and reliable as well. Table 4.3 illustrates mean, standard deviation (SD), skewness, and kurtosis statistical values.

The skewness and kurtosis values indicate whether the data show a normal distribution. The third moment about the arithmetic mean is always equal to zero in a symmetric series according to the asymmetry measures calculated with the moments. Accordingly, $\mu_3 < 0$ in the left-skewed series, and $\mu_3 > 0$ in the right-skewed series. On the other hand, for kurtosis, there is a relative height measure calculated according to the fourth moment. This measure is calculated as $\alpha_4 = \mu_4/\sigma^4$. While $\alpha_4 = 3$ in the normal series, $\alpha_4 < 3$ in the depressed series, and $\alpha_4 > 3$ in the pointed series. According to the skewness and kurtosis values given in Table 4.3, it is seen that the data show normal or near-normal distribution.

Table 4.3: Descriptive Statistics Analysis of The Research Model

Variable	X	SD	skewness	c.r.	kurtosis	c.r.
FI_1	3.756	1.0464	-0.7789	-14.9216	0.2882	2.761
FI_2	3.869	1.0842	-0.9256	-17.7311	0.3474	3.3279
FI_3	4.127	1.0303	-1.3019	-24.9401	1.3103	12.5508
FI_4	3.946	1.104	-0.9956	-19.0724	0.3821	3.66
In_1	3.386	1.0716	-0.2699	-5.1703	-0.3245	-3.1079
In_2	3.400	1.0543	-0.2422	-4.6394	-0.2628	-2.517
In_3	3.096	0.9983	-0.0674	-1.2909	0.0041	0.0394
In_4	2.790	1.0194	0.0703	1.347	-0.1284	-1.2301
In_5	3.207	1.0194	-0.1881	-3.6044	-0.3354	-3.2125
In_6	3.112	1.0756	-0.0827	-1.5847	-0.3309	-3.17
BC_1	3.932	0.9789	-1.1087	-21.2397	1.2904	12.3605
BC_2	4.19	0.9691	-1.4959	-28.6566	2.2636	21.6823
BC_3	3.658	1.155	-0.6973	-13.3587	-0.2294	-2.1971
BC_4	4.157	0.9913	-1.4032	-26.8823	1.8641	17.856
BC_5	3.611	1.1197	-0.587	-11.2455	-0.3026	-2.8986
BC_6	3.789	1.0698	-0.7686	-14.7244	0.0938	0.8981
At_1	3.856	1.0202	-0.9508	-18,2144	0.7656	7.3333
At_2	4.172	0.9388	-1.4851	-28,4509	2.4799	23.7535
At_3	3.612	1.0591	-0.4605	-8,8227	-0.1813	-1.7362
At_4	3.712	1.0589	-0.7813	-14,967	0.2445	2.3422
At_5	4.031	1.022	-1.2147	-23,2706	1.2572	12.0425
At_6	4.16	0.9494	-1.4926	-28,5939	2.4745	23.7019
Kw_1	3.604	1.2422	-0.6795	-13.0173	-0.5431	-5.2019
Kw_2	4.04	1.0263	-1.2981	-24.8673	1.5018	14.385
Kw_3	3.875	1.137	-0.959	-18.3708	0.1919	1.8385

Kw_4	3.86	1.0678	-1.0042	-19.2372	0.6254	5.9902
Un_1	2.007	1.0193	0.8694	16.6559	0.1777	1.7017
Un_2	1.832	1.002	1.265	24.2339	1.2089	11.5799
Un_4	2.129	1.0568	0.7361	14.1019	-0.0709	-0.6789
Aw_1	3.218	1.197	-0.2471	-4.7342	-0.8615	-8.2516
Aw_2	2.947	1.1573	0.0481	0.9223	-0.9324	-8.9315
Aw_3	2.887	1.1555	0.1046	2.004	-0.8528	-8.1688
Multivariate					346.117	174.0893
N= 2202 Min= 1 and Max=5						

Note: X= Mean value, SD= Standard Deviation, c.r= Critical Ration, FI= Financial Inclusion, In= Income levels, BC= Behavior Change, At= Attitudes, Kw= Knowledge, and Un= Uncertainty.

Table #4.3 shows the mean, standard deviation, skewness, and kurtosis values obtained and derived from the analysis. The standard deviation is a measure used to summarize the spread of data values and shows the deviation from the mean for each dataset in the research group. With due regard, the smaller the standard deviation value, the more consistent and interpreted as reliable. According to Table 4.5, with the lowest standard deviation of (SD=0.9388), is the expression "Following IsMF services is a good idea," which belongs to the scale of the individual dimension of financial attitude. The statement with the highest standard deviation of (SD=1.2422), belonging to the social proportion of the financial knowledge scale, stated that "All religious adherents can use the IsMF service." According to these results, the values of the variables did not deviate much from the mean.

According to the data in Table 4.3, When the arithmetic averages are taken into account, the statement "I plan to use IsMF services in the future," which belongs to the individual dimension of the financial attitude scale, takes the first place with (x=4.19). The expression into the lowest level of agreement is (x=1.832) of financial uncertainty, and "IsMF operations are not trustworthy." Albeit, in order to understand and evaluate

the outcomes thoroughly the average value of the variables has been described once again in Table 4.4 as follows:

Table 4.4: The Descriptive Statistics Analysis Variables Average Value

	Min	Max	X	SD	Skewness	Kurtosis
FI	1	5	3.925	0.958	-1.062	0.886
Awareness	1	5	3.017	1.0644	-0.038	-0.748
Uncertainty	1	5	2.305	0.7767	0.481	0.69
Knowledge	1	5	3.845	0.8769	-1.046	1.335
Attitude	1	5	3.924	0.8294	-1.304	2.356
BehavChange	1	5	3.889	0.8628	-1.038	1.309
Income	1	5	3.165	0.8557	-0.128	0.172

Note: Min= Minimum, Max=Maximum, N=2202, X=mean, SD= Standard Deviation

The average value of the participants participating in the survey in terms of Likert scale 5 expressions in the financial inclusion dimension is seen as ($x=3.93$). According to this average, it is seen that ($x=3.925$) statements are close to the fourth Likert scale degrees statement. Meaning that, most likely participants responded to the expression "I agree". The average Likert scale of the financial awareness of the participants is ($x=3.017$). It is seen that the average expression of ($x=3.02$) is close to the third expression scale. According to the statements used in the research, 3 corresponds to "I am neutral or not aware enough about." Conversely, it seems like most of the participants agree with the statement "I am not aware enough to decide" on the financial awareness scale.

The averages of the scale of uncertainty dimensions of the research participants are explained as follows. The average of the uncertainty dimension's Likert scale is 2.305, and the average of the uncertainty dimension is 2.83, revealing that the obtained value is most likely closest to the second item "I disagree."

The statements of the scales of the participants in this study are as follows. It is seen that the average of the Likert scale of financial knowledge is ($x=3.845$). According to this average, it is seen that 3.85 expressions are close to the fourth scale. Thus, most participants marked "Agree" in the expression of the financial knowledge scale. The average of the attitude scale of the participants was found to be ($x=3.924$) for the financial attitude dimensions, which is almost four. According to the findings of these scales, the average of the behavioral change dimension is ($x=3.889$), which is nearest to four, meaning that "I agree." The average mean of the income level variables is ($x=3.165$), which is most likely because the third scale said: "neutral or I am undecided". The average of the financial awareness dimension is 3.017, the response most likely means "Neutral or I am undecided." In this respect, it is seen that the participants frequently doubt the response associated with both awareness and income level with the statement "I am undecided or neutral to say something associated with such information" about the scale or items.

Table 4.5: The Gender-Based T-test of The Differences in The Scales of FI

	Gender	n	Mean(x)	Std. Deviation	df	F	t	p
FI	Male	1945	3.9344	.95844	2200	0.176	1.341	0.675
	Female	257	3.8492	.95345				
95% confidence	Lower=	-0.03945						0.180
	Upper=	0.20990						

Note: $p < 0.05$

An independent t-test was employed to determine if a difference existed between the mean financial inclusion of males and females who participated in the study. There was no statistically significant difference between the mean financial inclusion of males ($n=1945$, $x= 3.9344$, $sd= 0.95844$) and females ($n=257$, $x=3.84992$, $sd=0.95345$), $t(2200)= 1.3411$, $p=0.675$. The effect value or size $\mu^2 > 0.01$, was small. The power was 0.455. The 95% confidence interval was -0.04 to 0.21. According to

this finding the researcher failed to reject the null hypothesis (there is no statistically significant between genders in FI).

Table 4.6: Linear Regression Results

Model	R	R ²	Adjusted R Square	Std. error
1	.707 ^a	.499	.498	.6775

a. Independent variables: (Constant), Income, Uncertainty, Knowledge, Awareness, Behavioral Change

As indicated in Table #4.6, we can observe that the R-square value is 0.499, which means that this work's independent variables including Income, Uncertainty, Knowledge, Awareness, and Behavioral Change are caused by 49.9 percent change in the dependent variables (Financial inclusion). In other expressions, the result of the analysis indicates, that the R² value stipulates 50 percent of the variance of the dependent factors explained by the independent factors.

Table 4.7: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.β
	Regression	989.534	5	197.907	431.204	.000 ^b
1	Residual	992.279	2162	.459		
	Total	1981.813	2167			

a. *Dependent Variable: FI*

b. *Independent variables: (Constant), Income, Uncertainty, Knowledge, Awareness, Behavioral Change*

Table #4.7, the ANOVA results analysis illustrates that the p-value is 0.000, which is less than 0.05, hence we iterate that there is a significant relationship between

independent variables which are Income, Uncertainty, Knowledge, Awareness, Behavioral Change, and dependent variable (i.e., FI).

Table #4.8, demonstrated the coefficient of the study, based on research equations ($FI = \beta_0 + \beta_1Aw + \beta_2Un + \beta_3Kw + \beta_4BC + \beta_5In + \epsilon_t$), whereas; FI= financial Inclusion, β_0 = coefficient (constant), β_{1-5} = coefficient of independent variables (Aw= awareness, Un= uncertainty, Kw=knowledge, BC= behavioral change, and In= Income level) respectively, and ϵ_t = denotes total error terms.

Table 4.8: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	SE	Beta		
(Constant)	.411	.090		4.569	.000
Awareness	.040	.015	.045	2.692	.007
Uncertainty	-.045	.019	-.037	-2.396	.017
Knowledge	.303	.021	.278	14.597	.000
Behavioral Change	.383	.022	.345	17.774	.000
Income	.267	.020	.239	13.687	.000

a. Dependent Variable: FI

Table #4.8, shows the coefficients results. As indicated the beta value of Awareness is ($\beta = 0.045$), Uncertainty ($\beta = -0.037$), Knowledge ($\beta = 0.278$), Behavioral Change ($\beta = 0.345$), and Income Level ($\beta = 0.239$), which means that change in independent variables of awareness, knowledge, behavioral change, and income level respectively by one unit will bring it up the change in the dependent variable factor FI by 0.045, -0.037, 0.278, 0.345, and 0.239 units respectively, but only uncertainty declines FI by 0.037 units.

Moreover, the beta value (β) is positive for awareness, knowledge, behavioral change, and income level, which indicates the positive relationship between these factors and

FI segments. In another expression, it is possible to say that when awareness increases by one unit the FI will also increase by 0.045 units, when knowledge increases by one unit the FI will also increase by 0.278 units, when behavioral change increases by one unit the FI will also increase by 0.345 units when income level increases by one unit the FI will also increase by 0.239 units. However, the beta value of uncertainty is negative, which indicates the negative relationship between uncertainty and FI. In other words, we say that when uncertainty increases by one unit the FI will also decrease by -0.037 units.

4.9 Research Correlation Analysis

The research correlation analysis of the study was employed as follows:

Table 4.9: Correlations Among Variables

	1	2	3	4	5	6	7
1 FI							
2 Awareness	.304**						
3 Uncertainty	-0.02	0.01					
4 Knowledge	.564**	.309**	.054*				
5 Attitude	.682**	.376**	-0.04	.658**			
6 Behavioral Change	.613**	.251**	0.02	.573**	.660**		
7 Income	.489**	.349**	-0.03	.328**	.507**	.412**	

*Note: N=2202, * $p < 0.05$; ** $p < 0.01$*

According to the analysis results, as indicated in Table #4.11, there is a statistically positive moderate correlation relationship ($P = 0.000 < 0.05$ and $r = 0.304$) between the financial inclusion and awareness scale. There is a statistically ($P = 0.000 < 0.05$ and $r = -0.02$) negative correlation of a statistically insignificant relationship between financial inclusion and financial uncertainty scores. Besides, there is a statistically ($p = 0.000 < 0.05$ and $r = 0.01$) positive correlation of a statistically insignificant relation between financial uncertainty and financial awareness scores as well. In addition, a statistically

($P= 0.000 < .05$ and $r= 0.564$) positive correlation exists between financial inclusion and the financial knowledge scale. Conversely, it is found that there is a significant relationship between the expressions of financial knowledge, which is the independent variable, and financial inclusion scales, which are the dependent variables in this study.

As indicated in Table 4.9, according to the analysis results, there is a statistically positive high correlation relationship ($P= 0.000 < 0.05$ and $r= 0.658$) between the attitude and knowledge scale. There is a statistically positive high ($P= 0.000 < 0.05$ and $r= 0.573$) and $p= 0.000$ and $r= 0.660$) correlation of a statistically significant relationship between knowledge and attitude with financial behavioral change scores respectively.

According to the analysis findings, there is a statistically ($P= 0.000 < 0.05$ and $r= 0.682$) positive and highly significant relationship between financial inclusion and the scale of the mediation factor dimension of financial attitude in this study. In addition, there is a statistically ($P= 0.000 < 0.05$ and $r= 0.613$) positive and highly significant relationship between financial inclusion and the behavioral change dimension of the study. According to this finding, in order for IsMFI users to be more effective in SMEs, financial inclusion is highly related to societal behavioral change, which can be said to be more appropriate.

According to the analysis results, as indicated in Table 4.9, there is a statistically positive relationship ($P= 0.000 < 0.05$ and $r= 0.489$) high correlation between the financial inclusion and income level scale. There is a statistically positive moderate ($P= 0.000 < 0.05$ and $r= 0.349$) correlation of a statistically significant relationship between awareness and financial income level scores. Conversely, in this study, there is a statistically positive most likely moderate ($P=0.000$ and $r= 0.328$ for knowledge, $r=0.507$ for attitude, and $r=0.412$ behavioral change) to a highly significant relationship between income level scale.

As indicated in Table 4.9, the relationship between financial uncertainty and financial knowledge is significant while it is statistically insignificant for financial behavioral change. On the other hand, financial uncertainty has a negative relationship between financial attitude ($p=0.000 < 0.05$ and $r= -0. 04$) and income level ($p=0.000 < 0.05$ and $r= -0. 03$) scores respectively.

4.10 Finding and Descriptive Data Analysis

Using CFA (Amos) methods the data was investigated to test the model goodness of fit by exploring six variables executed. The result of the data analysis illustrates that a chi-square (CMIN) of 2534.19 to degrees of freedom (DF) 438 gives the result of value is equal to 5.785 and most likely the standard value nearest to 5 is the required, while the value of less than 5 preferred.

CFA underlying for the Goodness-of-Model-Fit Test (Modified version for Data Analysis) illustrated in Fig 4.10 as follows:

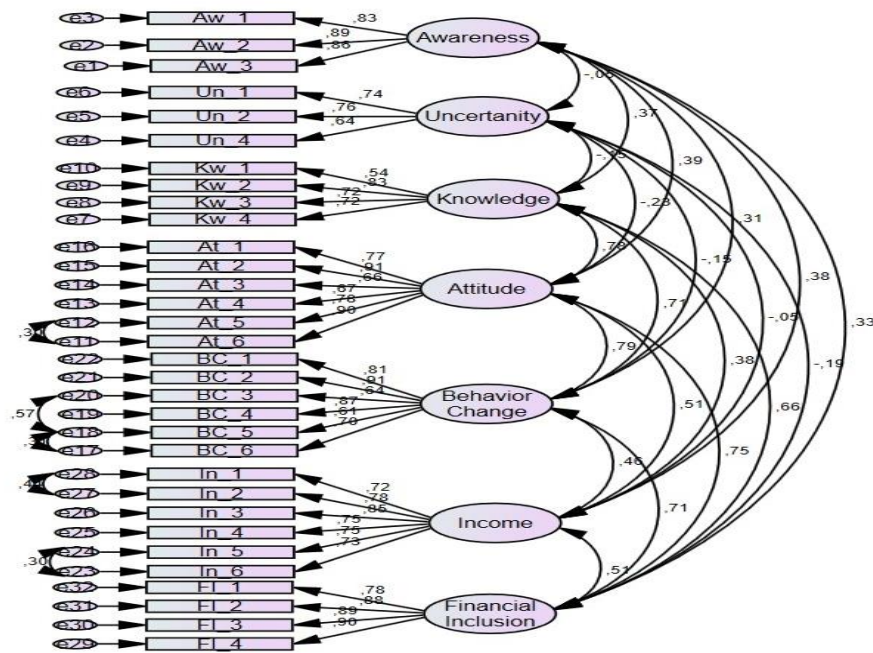


Figure 4.10: Research Modified Model Fit

The data was collected and investigated by using a hypothesis research question and utilizing CFA and SEM Amos measurement tools. The step-by-step findings indicate that all factors loading were statistically significant. Table 4.10 presents the analyzed data measured using standardized regression weights. Each factor's loading value has a measurement of validity and reliability greater than 0.5 (S. Aziz & Afaq, 2018). The result of this study verifies that it has been accepted because it meets the preferred standard scale. The entire factor loading of this study's average value of the result

score illustrates that it is greater than 0.5, which is majority greater than preferable if it is greater than 0.7 and is satisfactory, as shown in Table 4.10.

Table 4.10: Standardized Regression Weights Estimation

No	Code	Items	Result Scored	Average
1	FI_1	Financial Inclusion	.78126	0.86085
2	FI_2	Financial Inclusion	.87558	
3	FI_3	Financial Inclusion	.89023	
4	FI_4	Financial Inclusion	.89635	
5	Aw_1	Awareness	.82997	0.86228
6	Aw_2	Awareness	.89458	
7	Aw_3	Awareness	.86229	
8	Un_1	Uncertainty	.74100	0.71238
9	Un_2	Uncertainty	.75829	
10	Un_4	Uncertainty	.63777	
11	Kw_1	Knowledge	.54191	0.70322
12	Kw_2	Knowledge	.82814	
13	Kw_3	Knowledge	.72436	
14	Kw_4	Knowledge	.71849	
15	At_1	Attitude	.77216	0.78203
16	At_2	Attitude	.91093	
17	At_3	Attitude	.66333	
18	At_4	Attitude	.66527	
19	At_5	Attitude	.78218	
20	At_6	Attitude	.89830	
21	BC_1	Behavior Change	.81028	0.75819
22	BC_2	Behavior Change	.91477	
23	BC_3	Behavior Change	.64076	

24	BC_4	Behavior Change	.86847	
25	BC_5	Behavior Change	.61104	
26	BC_6	Behavior Change	.70387	
27	In_1	Income level	.72464	0.76403
28	In_2	Income level	.78090	
29	In_3	Income level	.84529	
30	In_4	Income level	.74623	
31	In_5	Income level	.75286	
32	In_6	Income level	.73428	

According to, (Byrne, 2013, pp. 86–97) the model’s goodness of fit and normality assessment for multivariate require that GFI, NFI, and CFI values should be greater than 0.9, while Standardized RMR should be less than 0.05, and RMSEA is less than 0.08 (Jaccard & Wan, 1996, pp. 87–88). In this study, the acceptable cut-edge point for RMSEA and SRMR value is 0.04663, which meets the requirement value of RMSEA and SRMR (less than 0.08) as suggested by (Byrne, 2013, pp. 94–99) and others (S. Aziz & Afaq, 2018; Hu & Bentler, 1999).

Table 4.11: The Summary of The Model Fit Test of Requirement and Results Score

No	Model items	Requirement	Result Scores
1	CMIN/DF	<5	5.78582
2	GFI	>0.90	0.93037
3	NFI	>0.90	0.94798
4	IFI	>0.90	0.95658
5	CFI	>0.90	0.95653
6	RMSEA	<0.08 (<0.05)	0.04663
7	SRMR	<0.09	0.0437
8	p-value	>0.05	0.000

SEM modified Goodness-of-fit model hypothesis assessment Fig 4.11 indicated as follows;

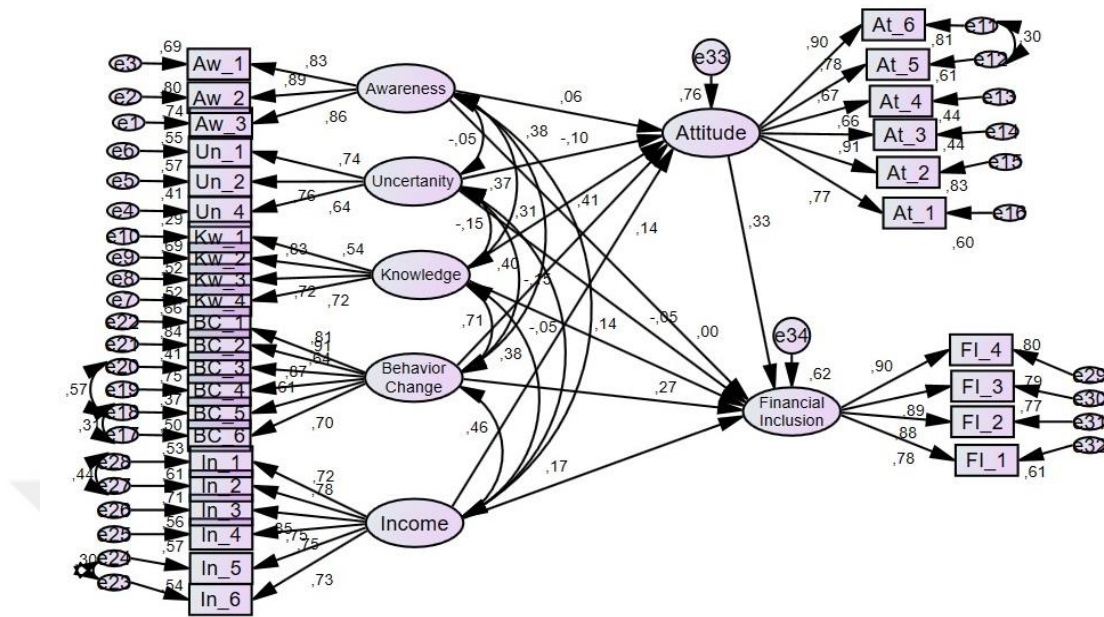


Figure 4.11: Modified Goodness-of-Fit-Model Hypothesis on TE, IE, and DE

4.11 Research Regression Analysis for Sub-Hypothesis

In order to test the research model based on Baron and Kenny's (1986) hypothesis, an interpretation was used to determine the relationship between the independent and dependent variables. The research model of this study is divided into two components: the total effect model and the attitude-based mediation effect model. Each component consists of five hypotheses. The Summary of both hypotheses are as follows:

4.11.1 Total Effect Model

H1a: There is a positive relationship between awareness and financial inclusion.

H2b: There is a negative relationship between uncertainty and financial inclusion.

H3c: There is a positive relationship between knowledge and financial inclusion.

H4d: There is a positive relationship between behavioral change (intention) and financial inclusion.

H5e: There is a positive relationship between income level and financial inclusion.

4.11.2 Attitudes as a Mediation of Model

H6f: There is a positive relationship between awareness and financial inclusion.

H7g: There is a positive relationship between uncertainty and financial inclusion.

H8h: There is a positive relationship between knowledge and financial inclusion.

H9i: There is a positive relationship between behavioral change and financial inclusion.

H10j: There is a positive relationship between income level and financial inclusion.

Table 4. 12: Total Effect and Mediation Model Test Results by Baron and Kenny (1986)

Hypothesized Notions	Total Effect (C)		Indirect Effect The relationship between IV via mediation to DV or FI (a &b)		Direct Effect C prime	Results Scores
	H1a	Not Sign	H6f	+ve Sign		
Awareness -to FI	H1a	Not Sign	H6f	+ve Sign	Not sign	Indirect relationship
Uncertainty -to FI	H2b	+ve Sign	H7g	+ve Sign	+ve Sign	Partial mediation
Knowledge - to FI	H3c	+ve Sign	H8h	+ve Sign	+ve Sign	Partial mediation
Behavioral Change – to FI	H4d	+ve Sign	H9i	+ve Sign	+ve Sign	Partial mediation
Income level - to FI	H5e	+ve Sign	H10j	+ve Sign	+ve Sign	Partial mediation

4.11.3 The Mediation Using Bootstrapping Model

In order to obtain a goodness-of-fit model bootstrapping model testing techniques are employed to resample or reshape the datasets based on statistical procedures (Byrne, 2013, p. 124). *Hypothesis one a* and *hypothesis six f* (H1a and H6f) finding results revealed that the relationship between awareness and financial inclusion was a direct relationship- which means H6 has not supported mediation of attitude between Awareness and FI in this study. However, the entire hypothesis (H2b and H7g; H3c

and H8h; H4d and H9i; and H5e and H10j) supported the mediation segment of a financial attitude positively towards FI partial mediation. Partial mediation means that there is a not only relationship between the mediation and dependent variables but also a relationship between the IV and DV.

Table 4.13: Total Effect, Indirect Effect, & Direct Effect to Measure Hypothesis

Categories		Awareness	uncertainty	knowledge	BC	Income
Total effect FI (p-value)						
	Lower bounder	-0.0233	-0.1154	0.2074	0.3427	0.1673
	Upper bounder	0.0575	-0.0425	0.3347	0.0487	0.2643
	D/c	0.4113	0.0002	0.0002	0.0002	0.0002
IDE		---	---	---	---	---
	Lower bounder	0.0067	-0.0479	0.0915	0.0945	0.0311
	Upper bounder	0.0338	0.0184	0.1752	-0.1804	0.0686
	D/C b/n L and upper value	0.0019	0.0001	0.0002	0.0002	0.0001
DE						
	LB	-0.0393	-0.0829	0.0684	0.2019	0.1195
	Up-B	0.0377	-0.0116	0.2152	0.3394	0.2187
	D/c	0.9669	0.0087	0.0007	0.0002	0.0002

Note: *p < 0.05, **p<0.01

4.12 Research Hypothesis Results

The results of the research hypothesis underlined in section 4.4.1, as demonstrated in Fig 4.12, after it has been removing some items from the SEM model assessment, and using the mean value of the variable included in the SEM assessment test utilized to execute the relationship between independent and dependent variables, in addition also the mediation factor are discussed. Besides, the regression weight estimation result shows that the r-square value obtained and illustrated in Table 4.14 and Table 4.15 were interpreted. As illustrated in Fig 4.12, the research finding result and the decision-

making are explained in Table 4.14 for the regressional hypothesis and Table 4.15 for the r-square value accordingly.

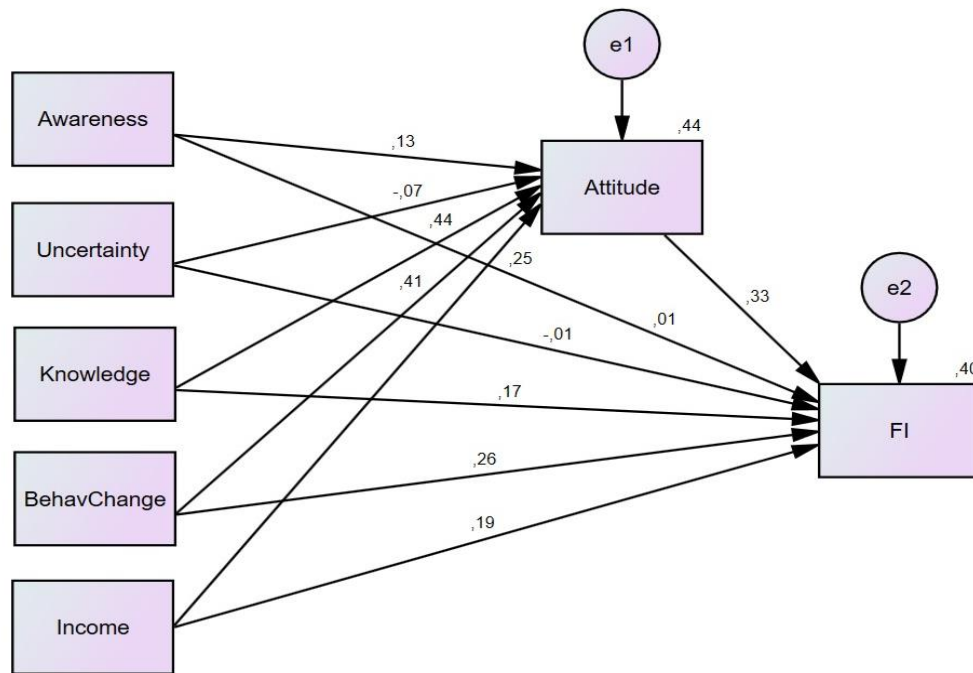


Figure 4.12: SEM Regression Data Analysis

As shown in Figure 4.11, we can create Figure 4.12 by removing the uncertainty item scale 3 model and interconnecting some error terms from the previous figure. We can then use the Mean value variables obtained to analyze the dataset by relying on the SEM assessment methods model.

Table 4.14: Regression Weight Hypothesis Result

Hypothesis			Factors	Loading Factor	C.R.	P-value	Decision
H1	Attitude	←	Awareness	.0844	8.16	***	Supported
H2	Attitude	←	Uncertainty	-.0646	-4.56	***	Supported
H3	Attitude	←	Knowledge	.3451	27.49	***	Supported
H4	Attitude	←	Behavioral Change	.3259	25.54	***	Supported

H5	Attitude	←	Income	.2010	15.62	***	Supported
H6	FI	←	Awareness	.0087	.66	.05090	Not Supported
H7	FI	←	Uncertainty	-.0158	-.89	.3746	Not Supported
H8	FI	←	Knowledge	.1640	9	***	Supported
H9	FI	←	Behavioral Change	.2549	14.01	***	Supported
H10	FI	←	Income	.1875	11.05	***	Supported
H11	FI	←	Attitude	.3959	14.81	***	Supported

H1: Table 4.14 shows that the regression weight result of financial awareness in the prediction of attitude is significantly different from zero at the p-value less than 0.001 with ($p < 0.05$ and $r = 0.0844$). Based on this information, the study result shows that when financial awareness increases by one unit, attitude also increases by 8.44 percent. Thus, the hypothesis of the study “H1” is supported accordingly.

H2: According to Table 4.14, the regression weight for uncertainty in the prediction of attitude is significantly different from zero at the value of two-tailed 0.001 level with ($p < 0.05$ and $r = -0.07$). These outcomes show that there is a negative relationship between uncertainty to attitude as well and when uncertainty increases by one unit, the attitude decreases by 7 percent or vice versa. Thus, the hypothesis of the study “H2” is supported.

H3: As indicated in Table 4.14, there is a medium significant ($P < 0.05$ and $r = 0.35$) positive relationship between knowledge to attitude and this implies that when knowledge increases by one unit, the attitude also increases by 35 percent. Accordingly, this study revealed that the regression weight for knowledge in the prediction of attitude is significantly different from zero at the two-tailed p-value of less than 0.001 level. Thus, the hypothesis of the study “H3” is supported.

H4: As indicated in Table 4.14, there is a medium significant ($p < 0.05$ and $r = 0.33$) positive relationship between behavioral change to attitude, whereas when behavioral change increases by one unit, the attitude also increases by 33 percent. Relying on the

outcome the regression weight for behavioral change in the prediction of attitude is significantly different from zero at the two-tailed p-value of 0.001 level. Thus, the hypothesis of the study “H4” is supported accordingly.

H5: Table 4.14 demonstrates that there is a significant ($p < 0.05$ and $r = 0.20$) positive relationship between income level and attitude. The regression weight result of income level in the prediction of financial attitude is significantly different from zero at the two-tailed p-value of 0.001 level. Besides, when income level increases by one unit, attitude increases by 20 percent. Thus, the hypothesis of the study “H5” is supported.

H6: As illustrated in Table 4.14, ($p = 0.5090$ and $r = 0.01$), there is no significant relationship between awareness and financial inclusion (FI). Therefore, the regression weight result for awareness in the prediction of FI is not significantly different from zero at the two-tailed p-value of 0.05. Conversely, when financial awareness increases by one unit, FI increases by 1 percent. Therefore, the hypothesis of the study “H6” is not supported accordingly.

H7: As demonstrated in Table 4.14, this study revealed that ($p = 0.3746$ and $r = -0.02$) there is no significant relationship between uncertainty and FI. Besides, the regression weight result for uncertainty in the prediction of FI is not significantly different from zero at the two-tailed p-value of 0.05. Therefore, the hypothesis of the study “H7” is not supported accordingly.

H8: Table 4.14 illustrates that there is a significant ($p < 0.05$ and $r = 0.164$) positive relationship between knowledge and FI. Therefore, the regression weight for knowledge in the prediction of FI is significantly different from zero at the two-tailed p-value of 0.001 level. Conversely, when knowledge increases by one unit, FI increases by 16.4 percent. Thus, the hypothesis of the study “H8” is supported accordingly.

H9: As indicated in Table 4.14, there is a medium significant ($p < 0.05$ and $r = 0.26$) positive relationship between behavioral change and FI. In another saying, the regression weight for behavioral change in the prediction of FI is significantly different from zero at the p-value 0.001 level. Besides, when behavioral change increases by one unit, the FI also increases by 26 percent. Thus, the hypothesis of the study “H9” is supported accordingly.

H10: Table 4.14 illustrates that there is a significant ($p < 0.05$ and $r = 0.19$) positive relationship between income level and FI. This information shows that the regression weight for income in the prediction of FI is significantly different from zero at the p -value 0.001 level. Conversely, when the income level increases by one unit, FI also increases by 19 percent as well. Thus, the hypothesis of the study “H10” is supported accordingly.

H11: According to Table 4.14, there exists a significant positive relationship (with $p < 0.05$ and $r = 0.40$) between financial attitude and FI. Additionally, the regression weight for financial attitude in predicting FI is significantly different from zero at the p -value of 0.001 level. Moreover, when the attitude increases by one unit, FI also increases by 40 percent. Thus, the hypothesis of the study, "H11," is supported accordingly.

Table 4.15: R-square Regression Result

	R-square result
Attitude	0.44
FI	0.4

So far as indicated by Figure 4.12. and Table 4.15, the R-square value which is equal to 44% of the variance of the attitude is explained by other IV factors in this study. Similarly, the R-square value that is equal to 40% of the variance of the FI is explained by this model as well.

4.13 Conclusion

The study expands the theoretical framework of TPB in line with the function of financial inclusion to adopt IsMF to boost the economic growth of poor people. To do so, exploring the financial skills and capacity building of low-income generating or poor society is playing a crucial role. Accordingly, to promote financial inclusion for inclusive growth dynamic-based approach was carried out in this study., Ethiopia's financial exclusion has been a critical problem for decades, for instance, due to a high

rate of many individuals citing religious reasons for not using bank accounts in the past ((N. Alam et al., 2021, p. 225)Er & Mutlu, 2017a; Hersi, 2018; Iqbal & Mirakhor, 2013), and there is a gap in the facility such as gaps of gender, religion, distance issue for financial services both in urban and rural, and much more reason to foster financial inclusion.

This study result shows that increasing financial awareness, financial knowledge, and behavior change has a positive effect on financial attitude as well and the financial attitude also significantly influences promoting financial inclusion towards adopting IsMF services. Similar research conducted in Indonesia in 2022 supports that this result of increasing the financial skills of poor people improves the FI on adopting IsMF services (Purwanto et al., 2022, pp. 14–16).

This research found that financial attitude is influenced by financial awareness, uncertainty, knowledge, behavioral change, and income level. Financial inclusion is determined by knowledge, behavioral change, and income. However, the study did not support the positive relationship between financial awareness and the negative relationship between uncertainty and promoting financial inclusion to adopt IsMF services due to limited factors. The results are crucial for Islamic microfinance and IFI practitioners and beneficiaries to transform their financial strategies. Therefore, Islamic microfinance practitioners should focus on building financial awareness, knowledge, behavioral change, and financial inclusion to develop effective financial attitudes for the benefit of IFI products and services.

CHAPTER V

ISLAMIC CROWDFUNDING AND CASH WAQF

In this section, we will discuss the relationship between financial inclusion the light of fintech-oriented tools in particular crowdfunding's role in financial development and economic empowerment. Additionally, the ICFCW model will be examined and verified as part of this study. The main research questions to respond to in this chapter are as follows:

Research Questions (RQ 3): Can integration of the Islamic Crowdfunding-Cash-Waqf-Model (ICFCW) be a viable tool for resource mobilization and project funding mechanisms through Islamic Microfinance services for poverty alleviation in Ethiopia?

5.1 Introduction

Crowdfunding has been utilized for fundraising for many different purposes both online and offline. In recent years, technological platforms have been used for worldwide online fundraising campaigns. For example, during Obama's 2008 presidential campaign, crowdfunding tools helped generate \$500 million (Cunningham, 2012). Some scholars suggest there are two main ways to generate funds through crowdfunding. The first is to use existing crowdfunding platforms such as Kickstarter, IndieGoGo, and RocketHub. The second is to use your own software platforms, website, and existing online connections to create a unique campaign. The key is to convince investors/backers to assist with the project (Steinberg & DeMaría, 2012).

Today, Kickstarter, GoFundMe, and Indiegogo are the most popular crowdfunding platforms worldwide. In addition, there are now Islamic mindset fintech services such as Wahed Investment, Haseed, and OneGram that provide shari'ah-oriented driven platforms (N. Alam et al., 2021, p. 228). Other countries, like Bahrain, have launched the first crypto-asset exchange and developed fintech regulations. Saudi Arabia and

the UAE have also developed common digital currency, while Kuwait has developed e-currency payment facilities for infrastructure (N. Alam et al., 2021, pp. 230–233).

Fintech-based financing tools like crowdfunding allow you to create resources without relying on traditional fundraising methods. In the USA alone, Kickstarter and Indiegogo raised around \$2 billion in funds in 2015 (HBR, 2018). While crowdfunding platforms can raise enormous resources from a massive crowd, it is crucial to have a well-designed administrative structure and a good governance system (Torre, 2017). The growth of automation services in business sectors increases financing options further by utilizing fintech solutions via P2P, equity crowdfunding, and Blockchain promotion (Alam et al., 2021, p. 234). To keep track of such transactions, a relevant and genuine regulatory framework and guidelines in line with sound developmental policy and compliance activities matter (N. Alam et al., 2021, p. 234).

In general, the integration of Islamic crowdfunding, cash-waqf, and IsMF can be a significant source of funding, especially for economically marginalized groups or low-income societies. The current technological revolution or "Digital transformation" is a fundamental driving force for financial development and financial services in the 21st century. Digital finance or fintech encourages financial development and poverty reduction by enhancing inclusive finance (N. Alam et al., 2021, pp. 1–9; Feyen et al., 2023, p. 33).

This section aims to provide an overview and insight into the proposed model combining crowdfunding and cash waqf. Relying on some literature and studies outcomes alternative methods are underlined. The purpose of this chapter is to introduce an alternative tool, the Islamic-Crowdfunding-Cash-Waqf (ICFCW) framework, which adopted IsMF services. The framework explores genuine channels for Islamic social finance for fundraising with the help of fintech. Fintech plays a central role in accessing financial services that are widely used nowadays. This research focuses on poverty alleviation by channeling funds through Islamic crowdfunding and cash waqf financial instruments for IsMFIs. The ICFCW model, which is based on equity financing, is ranked third after PLS (Musharakah and Mudaraba) and Muarabaha-based finance, as highlighted by the pilot study. Some studies suggest that crowdfunding is a game-changer alternative tool in the era of fintech for Islamic financial institutions (N. Alam et al., 2021, p. 233).

5.2 An Overview of Crowdfunding

The word or concept of crowdfunding is driven by two notions crowdsourcing and microfinance (Adekoya, 2019). Accordingly, crowdfunding means crowd-financing/investing by participating a masses of people to generate resources through the website or the internet to assist innovative notions of entrepreneurs or institutions (Cumming et al., 2017; Steven Dresner, 2014). So, literature analysis reveals that the term crowd financing was practiced for a long period as some resources indicate. In addition, in contemporary periods this term, crowdfunding was utilized by Jeff Howe in 2009.

However, as a result, there is still no single consensus meaning or definition related, yet. Nonetheless, in different literature, the majority of scholars provide various definitions, accordingly. Some group defines crowdfunding as open calls via the Internet to provide financial services for special purposes in the form of donations, and rewards, but other explains it as an exchange tool with or without benefits for generating resources by using vast techniques for upcoming products and services (Adekoya, 2019; Aderemi & Ishak, 2020; Cunningham, 2012; Hasan & Ahmad, 2020a).

Crowdfunding can be divided into two categories; Conventional and Islamic Crowdfunding, based on the Shari'ah point of view as well as implementation accordingly, relying on the principle that governs a highly developed and strategically organized platform system.

5.2.1 Conventional Crowdfunding

Crowdfunding is a form of fundraising that can be able to support and assist in establishing and managing a new project or expanding an existing one (Cunningham, 2012; Ramli et al., 2022; Shahrul & Bin, 2022). In addition, it's a system that is a newly emerging tool to extract resources to provide funds as an alternative source for a new start-up business in small and middle-entrepreneurs (SMEs), for higher education loans, innovative, and creative entrepreneurs as well as for widening or expansion of existing small business activities in general. In other terms, crowdfunding means requesting funds or resources from a massive group through the Internet

(Cunningham, 2012; Ramli et al., 2022; Shahrul & Bin, 2022; Wahjono & Marina, 2016).

There are various forms of crowdfunding utilized for resource mobilization or fundraising. The literature on crowdfunding identifies numerous categories, but the most popular types are donation-based, reward-based, debt-based (lending-based), and equity or investment-based crowdfunding (Abdeldayem & Aldulaimi, 2022; Adekoya, 2019; Aderemi & Ishak, 2020; Ramli et al., 2022; Shahrul & Bin, 2022; Torre, 2017; Wahjono & Marina, 2016). Nowadays, it has been estimated that billions of funds are generated and thousands of projects financed through various crowdfunding models via online posted campaigns (Torre, 2017). Thus crowdfunding is aligned with a better lifestyle for poor and needy segments and is nowadays popular for integrated social media campaigns based on business activities particularly to meet with potential investors (Ramli et al., 2022; Torre, 2017).

Donation-based crowdfunding is defined as a form of crowdfunding where participants donate money without any benefit in return. Whereas the purpose of reward-based crowdfunding is stated as a kind of contribution or support that is financing new ideas or projects without any monetary or material rewards expectations but only to get honor or a good reputation (Abdeldayem & Aldulaimi, 2022; Adekoya, 2019; Aderemi & Ishak, 2020; Baber, 2020). However, equity-based crowdfunding is carried out on the basis of the financial contributor sharing the project or the business both benefits and misfortunes accordingly (Abdeldayem & Aldulaimi, 2022).

Therefore, the crowdfunding financial system leads to potential growth and an alternative source of social finance, especially for newly emerging businesses, particularly in the contemporary technological era (Aderemi & Ishak, 2020; Hasan & Ahmad, 2020a; Torre, 2017). In this sense, in the contemporary situation, Islamic crowdfunding uses Murabaha modes and Mudarabah modes of financing (Aderemi & Ishak, 2020).

The history of Website-based crowdfunding, emerged in late 2000 to assist entrepreneurial Artists with project support (Shahrul & Bin, 2022). Currently, while the crowdfunding platforms based online are rising from time to time different countries including the United States and China started to take necessary regulatory measures and governance issues to help the growth of crowdfunding as well (Shahrul

& Bin, 2022). Unless in a few countries like Malaysia, there are no comprehensive guidelines exist in other areas yet, for Islamic fintech, particularly Islamic Crowdfunding and P2P business to ensure shari'ah compliance (Salim et al., 2020). As far as the crowdfunding platform is a part of online financing and alternative tools for financing in the digital financing (technological) arena for small and medium enterprises it requires proper attention to have comprehensive guidelines of shari'ah governance and to ensure shari'ah compliance as well.⁵⁰

5.2.2 Islamic Crowdfunding and Its Shari'ah Perspectives

Islamic crowdfunding adheres to the principles of shari'ah, much like other forms of Islamic finance. The primary aim of Islamic crowdfunding is to promote ethical financing, which emphasizes justice and impact investment, benefiting all parties involved in a transaction. The parties involved in Islamic crowdfunding are the issuer (creator/operator), the investor (lender), and the platform (operator) of the project (Ramli et al., 2022). Furthermore, some studies reveal that instruments like Cash Waqf and Cash-Waqf-Sukuk are also referred to as the best fundraising tools for a microfinance institution (Gundogdu, 2018). The cash waqf models can serve as alternative funds and channels for microfinance (Alamoudi et al., 2021). With due regard, it is supposed that this work focuses on the ICFCW framework comprising Islamic crowdfunding (ICF), cash waqf, IsMF, financing sound productive projects, and encouraging Economic Empowerment which can be able to change poor and needy people by improving their lifestyle and reduce poverty as well.

Additionally, nowadays exploring new channels for Islamic social finance by using financial technology (FinTech) for fundraising is crucial. According to some studies, the main issue in achieving SDG goals in 2030 is how to mobilize the necessary resources to meet the set target (Gundogdu, 2018). A famous crowdfunding Kiva.org was established in 2005 to assist the poor and deprived people in fundraising for

⁵⁰ Harvard Business Review, *Entrepreneur's Handbook, Everything you need to Launch and Grow Your New Business* (Boston, Massachusetts: Harvard Business Review Press, 2018), 117 & 125.

individual support through repeating loans as usual based on peer-to-peer (P2P) (N. Alam et al., 2021, p. 5). While Wafaalend.org is a crowdfunding that has located in London Shariah-compliant and equivalent to Kiva.org but is also used to finance poor Muslim countries or communities' economically facing misfortunes (Cumming et al., 2017). Eventually, several countries including GCC and Africa are planning to operate fintech services by initiating more digital-based branches of business centers in the financial services ecosystem (N. Alam et al., 2021, p. 6).

Furthermore, the study favors merging cash waqf (Mohd Thas Thaker, 2018; Mohd Thas Thaker et al., 2021; Nour Aldeen et al., 2022; Usman & Ab Rahman, 2021) and crowdfunding (De Luca et al., 2019) tools to promote social and economic empowerment (Pal et al., 2022; Zitouni & Ben Jedidia, 2022), and empower women through financial inclusion (Bhatia & Singh, 2019; Jaya, 2019; Lal, 2021), via the adoption of IsMF (A. Abdullahi & Othman, 2021). The study also proposes the integration of waqf and IsMF (M. a Haneef et al., 2013), a combination of zakat and awqaf (H. Ahmed & Salleh, 2016; Ascarya et al., 2022; Gündoğdu, 2019), adopting IsMF (Lawhaishy & Othman, 2022; Purwanto et al., 2022; Samad, 2014), and micro-fintech tools (Ascarya & Sakti, 2022), and fintech (Hailu et al., 2018; Heng & Tok, 2022; Maharjan et al., 2022; Shaikh, 2021) in rural via Mudarabah financing, while supposed to funding urban areas through Murabahah and ijarah in this study in particular.

Hence, the study examines other related vast Islamic social financing methods that can be used for promoting the welfare and prosperity of unprivileged societies, such as Qard-Hasan (Aderemi & Ishak, 2023), Salam for IsMF (Muneeza et al., 2011), Zakat (B. O. Ahmed et al., 2017; Bin-Nashwan & Al-Daihani, 2020; Puteri et al., 2022; Sawmar & Mohammed, 2021), Istisina, sadaqah (charity), and others like IsMF for food security (Obaidullah, 2015), ISF for sustainable development (Aydin, 2015).

To compile, it's important to note that Shari'ah perspectives on Islamic crowdfunding can be dynamic, and interpretations may vary among scholars whereas the major scholars support or accept unanimously three models of Islamic crowdfunding techniques such as donation-based, reward-based, and equity-based fundraising while they rejected debt-based methods due to the reason of it consists interest or riba. Last but not least, the AAOIFI standard-setting for IFS organization put into effect on 24

December 2022 the new Islamic crowdfunding governance standard No: 14 that is associated with Islamic crowdfunding implementation based on the concept of shari'ah ruling collaboration with the participation bank of Türkiye (TKBB).⁵¹

5.3 Islamic Social Finance

Islamic social financing refers to a set of financial mechanisms and approaches that comply with the principles of Islamic law. Its focus is primarily on social and humanitarian objectives, with an emphasis on shared responsibility and collective well-being. In the context of economic development and societal needs, Islamic social financing plays a crucial role and is an essential aspect of Islamic finance. The tools of ISF⁵² include zakat, waqf, qard-hasan, and sadaqah, among other instruments. These tools are designed to mobilize funds and resources for charitable acts, such as providing financial assistance to impoverished households and groups to improve their living standards, including access to healthcare, education, nutrition, electricity, and agricultural assets (A. G. Ismail et al., 2022, p. 67). Additionally, ISF promotes entrepreneurship skills for sustainable economic growth and development.

5.3.1 The Cash Waqf Model

Waqf (plural: awqaf) is a term used in Muslim societies to explain a trust or endowment. The concept of waqf in Islam involves "Holding certain property and preserving it for the confined benefit of a specific charity", in line with a particular objective (Kahf, 2016). The notion of waqf was old enough in human history and the waqf of the Quba' mosque in Madina was the first waqf property that was built

⁵¹ <https://aaoifi.com/announcement/the-aaofii-governance-and-ethics-board-ageb-issues-governance-standard-gs-14-on-islamic-crowdfunding-governance/?lang=en> [23.01.2024].

⁵² Salman Ahmed Shaikh, "Mobilizing Philanthropy Instruments in Development Assistance": *Islamic Philanthropy: Exploring Zakat, Waqf, and Sadaqah in Islamic Finance and Economics*, ed. Abdul Ghafar Ismail et al., (Palgrave Macmillan, 2022), 66-70.

following the arrival of Resul or Prophet Mohammed, pbuh (Kahf, 2016). A majority of scholars defined Waqf as a perpetuity characteristic (Obaidullah, 2008), and some scholars also argued that it's possible to create and operate temporally waqf (Kahf, 2016). Accordingly, unlike Abu Hanifa, among others, many scholars (Ulema) agreed to establish Waqf from immovable assets and movable assets as well. Thus, the ulema that intended to allow the establishment of movable waqf is based on the conditions of the proposed kinds of waqf (Bulut & Korkut, 2022).

Waqf is referred to as an endowment form of property utilized to enhance Islamic social financing, which is particularly reliant on benevolence, acts of kindness, and generosity motive. It plays a crucial role in establishing organizations in various sectors- schools, orphanages, hospitals, and social centers infrastructures that gratify societal welfare. So far, it can be applied for non-perishable properties due to extracting benefits and usufructing easily from it as well. Therefore, it is mostly applied to land or real estate for benevolence|charity, and religious purposes. On the other hand, waqf was allowed for books, agricultural tools, animals (livestock), shares and stocks, and further cash as well. Thus a "Cash Waqf" is undertaken by keeping the original property intact as well as utilizing the generated returns from an endowment in accord with the stated objectives (Obaidullah, 2008). It's very crucial for social-economic growth and development, particularly in the microfinance sector (Cumming et al., 2017; Demirguc-Kunt et al., 2017). As a result, Waqf is a social-based institution acts relies on philanthropic activities that are crucial for social financing purposes (A. G. Ismail et al., 2022, pp. 69–70).

The majority of scholars classify waqf into three categories: religious, philanthropic, and family waqf. Religious waqf is used for the maintenance and expenses of mosques, while philanthropic waqf is utilized for activities such as healthcare, education, research, microfinance, animal care, and environmental protection. Family waqf is used to benefit descent or children related to the founder of the waqf (Obaidullah, 2008).

Awqaf is considered a permanent voluntary action by a majority (Obaidullah, 2008), and its property cannot be transferred to another person unless approved by the court. The founder of the waqf has the right to decide the form and management of the awqaf in accordance with the shari'ah ruling (Kahf, 2016). Awqaf is managed by

Mutawallih⁵³ under the founder's objective without violation of the shari'ah ruling as well as mentioned in the waqf document (Kahf, 2016).

Cash Waqf is another form of waqf, historically established during the Ottoman Empire. It involves generating funds through cash donations and utilizing them for lending purposes to borrowers (Obaidullah, 2008). However, this transaction does not generate returns based on a fixed interest rate, as it is considered prohibited in Islam, Christianity, Judaism, and other monotheistic religions. Any form of income generated on money lending above the principal, called *riba* in Islam, is strictly prohibited (Bulut & Korkut, 2022). The Ottoman-based cash waqf is considered the origin of the current Micro-credit institution "Micro-credit institution" (Obaidullah, 2008), and research studies have revealed that it has helped poverty alleviation (Alamoudi et al., 2021; Bulut & Korkut, 2022). Cash waqf fund (CWF) can be financed through numerous tools associated with Mudarabah, Musharakah, Musharakah Mutanaqisa, and Qard-Hasan (Alamoudi et al., 2021).

This section presents an integrative analysis of how inclusive financial tools, crowdfunding viability, economic empowerment, and cash waqf funds can alleviate poverty and improve financial accessibility. The study incorporates both primary and secondary data sources to ensure originality.

5.3.2 The Qard Hasan Model

The term Qard-Hasan is derived from two Arabic words, *Qard* and *Hasan*. Qard means "To cut something off," while Hasan refers to "Benevolence" or "Beautiful," which is derived from *Ihsan*⁵⁴ (Aderemi & Ishak, 2020; Askari et al., 2009). In simpler terms,

⁵³ Note: The Mutawallih is a waqf manager it is called also Nasir or Wasyy sometimes as well as, he/she has some responsibility as administrator of the waqf assets to the best interest of the beneficiaries.

⁵⁴ Hossein Askari, et al., *New Issues in Islamic Finance and Economics: Progress and Challenges*, (John Wiley & Sons Ltd: Wiley Finance, 2009), 200. Note: (Ihsan- means "to adore Allah (swt) as if you see Him and know that (even) if you do not, He sees you",

Qard-Hasan is known as "A beautiful loan" (Obaidullah, 2008). So far, the term Qard-Hasan has technically been defined as it is defined as a loan received without any return or increase above the principal amount (Aderemi & Ishak, 2020; Askari et al., 2009; Obaidullah, 2008). The legitimacy of Qard-Hasan originated from primary resources such as the Qur'an verses (57:11, 57:18, and 17:64), Sunnah(Hadith), and the consensus of the scholar or Ijma (Aderemi & Ishak, 2020; Askari et al., 2009; Obaidullah, 2008):

“Those verses that the rewards of Qard Hasan promised by Allah swt are meant for the hereafter:(1) Who is it that will give Allah a beautiful loan? A loan that Allah will repay after increasing it many times and grant him a generous reward (57:11); (2) Verily those who give alms be they men or women, and give Allah a beautiful loan shall be repaid after increasing it many times, and; theirs shall be a generous reward (57:18); (3) If you give Allah a goodly loan, He will increase it for you several folds and will forgive you. Allah is Most Appreciative, Most Forbearing (17:64)⁵⁵ (Obaidullah, 2008).”

Islamic finance and conventional microfinance institutions have a common goal of addressing socio-economic issues. In addition to these institutions, other Islamic financial products can help alleviate poverty, including Qard Hasan, Sadaqah, and Zakah (Askari et al., 2009). There are a few basic differences between Qard-Hasan, Sadaqah (charity), and Zakah, which are crucial in Islamic financing activities. *Qard-Hasan* is a form of an interest-free loan that is expected to be returned to the creditor paid off (the borrower specifies the time of repayment), whereas the *sadaqah* (charity) is pure benevolent activity (no repayment), while, *zakah* is a kind of obligatory alms that transfers wealth from the rich to the poor. Thus, in this notion, the Qard-Hasan system is an effective outreach tool for microfinance instruments that aims to improve economic empowerment among the poor and needy.⁵⁶ Studies have shown that this

⁵⁵ Towards Understanding the Quran, with the kind permission: Islamic Foundation UK introduction to Tafheem glossary, <https://www.islamicstudies.info/tafheem.php>[10.06.2023].

⁵⁶ Askari et al., New Issues in Islamic Finance and Economics, 197. Discussed the importance of Qard-Hasan can play a great role in the Islamic Republic of Iran for improving the

system is suitable for microfinance and can contribute to sustainable development, assist those who do not obtain loans from any financial institution (M. N. Alam, 2016, p. 175), and boost poverty alleviation efforts (Hassan et al., 2021) and enhance financial inclusion (Lawhaishy & Othman, 2022). Additionally, this financing approach helps develop business-related skills and provides concessional awards to private entities, similar to build-operate-transfer project financing. This type of financing assists in the repayment of the Qard-Hasan loan over a certain period to cover project costs (Bohari et al., 2021, p. 389).

5.3.3 Zakah, Sadaqah, and Others

Islam encourages its followers to perform charitable acts and other righteous deeds to the best of their ability. One such act is Zakah, which involves giving 2.5% of one's wealth annually to the poor, needy, debtors, and those responsible for collecting and distributing Zakah. While traditional approaches to collecting and distributing Zakah involve mosque Imams and committees in various Muslim countries, some countries have established Zakat ministries or organizations for this purpose. However, it may be more effective to organize and administer Zakah through well-organized strategic systems using institutions such as NGOs and Zakat affairs to ensure proper collection and fair distribution.

Zakah is obligatory for Muslims who believe in Allah, While Sadaqah is another important concept in Islam that involves acts of kindness and generosity towards those in financial need which is voluntary and done to please Almighty Allah. Other cultures and religions also encourage various forms of charitable giving and acts of kindness. Charitable giving and acts of kindness are emphasized in different cultures and religions as a means of supporting the financial needs of the poor, promoting social bonds, and improving socio-economic challenges. Islamic social financing also promotes the concept of Qard-hasan, which involves providing benevolent loans without interest to empower individuals and small businesses and create sustainable

economic empowerment for the poor and leading to a sustainable economy in Muslim societies as well.

livelihoods. Islamic social financing also aims to incorporate ethical, impactful, and responsible investment practices involving genuine real economy and business activities that have a positive social impact and contribute to the betterment of society.

Overall, Islamic social financing encompasses the ethical values of financial services that rely on real assets based on value-added contracts according to Islamic finance, targeted solidarity, social justice, and inclusive financial provision through IsMF, zakat, and waqf (Bohari et al., 2021, p. 387), for the societal well-being of the entire community.

5.4 The Role of Crowdfunding in Conventional and Islamic Microfinance in The Contemporary Finance Industry

Islamic microfinance differs from conventional crowdfunding in that it is based on Shariah-compliant financial instruments and offers products and services accordingly. While conventional crowdfunding is not in line with Shariah law, Islamic microfinance adheres to its principles. The IMF is prohibited from engaging in financial activities that promote prohibited activities such as gambling, alcohol, and pork under Islamic law or Shariah. In contrast, conventional microfinance is not bound by these restrictions (Abdeldayem & Aldulaimi, 2022).

Crowdfunding plays a significant role in both the conventional (mainstream) financial ecosystem and the Islamic financial system. According to a 2020 World Bank report, crowdfunding raised over \$100 billion to support start-up projects and small businesses. In the Middle East and North Africa (MENA) region, the market share for crowdfunding reached approximately \$5.5 billion during the same period (Abdeldayem & Aldulaimi, 2022).

5.5 The Relationship Between Crowdfunding, Cash Waqf, and IsMF Model

Within the Islamic finance ecosystem, Islamic social financing (ISF) encompasses several segments such as Islamic Microfinance, Takaful, zakat, Qard-Hasan, Sadaqah, and Waqf among others. In recent times, Fintech-based financing tools like Islamic crowdfunding have also become a part of ISF, especially during the technological revolution. Crowdfunding, cash waqf, and the qard Hasan model share a common

objective of mobilizing resources to provide low-cost services and support small projects with higher return potential for beneficiaries in low-income societies. This chapter will explore the authentic relationship between Islamic crowdfunding, cash waqf, and Qard-Hasan instruments.

5.6 The Integrated Islamic-Crowdfunding-Cash-Waqf Model

This section presents and develops the dynamic approach in accord with the integration of Islamic crowdfunding and cash-waqf instrument modeling. This model is referred to as an '*Integrated-Crowdfunding-Cash-Waqf Model*' as a resource mobilization tool. In this study, an Integrated-Crowdfunding-Cash-Waqf Model -ICFCW model (Aderemi & Ishak, 2020; Hasan & Ahmad, 2020b; Saiti et al., 2018, 2021) can be executed and looking forward to developing how it could be implemented as well. Thus, this research aims to come up with a suitable model and discuss how it is possible to improve financial inclusiveness via Islamic finance or microfinance to benefit society at large. To realize such fundraising programs and implement better resource allocation, technology-based platforms play a great role. Thus, in line with technology assistance collecting and exploring appropriate information related to the beneficiary as well as fund providers is very crucial.

The integrated Islamic Crowdfunding-Cash-Waqf Model is proposed as a way to provide financial services to both developed and developing countries, particularly to middle and low-income societies. This model uses crowdfunding and Cash Waqf, along with benevolent loans (Qard Hasan) and donation tools, to encourage entrepreneurs to participate in productive economic activity and attain a sustainable economy. By using the proper platform regularly, entrepreneurs can pay back their credit/loan according to the scheduled maturity time/period. Crowdfunding mainly assists new startup businesses for purposes such as higher education loans, innovation, creativity, and expansion of existing small businesses (Panigrahi, 2022; Steven Dresner, 2014). Therefore, it is expected that the Ethiopian government can promote the growth of startup businesses and encourage innovation by implementing inclusive policies and reforms that support technology-based tools. Additionally, improving financial services for existing businesses in various sectors and enhancing the new ones through digitalization like Ethiopia telecom *Telebirr pay*, *Coopay*, *Safaricom M-*

Pesa Mobile financial firms, and many more fintech-based mobile bill payment activities in one way or another can also be beneficial and promoted.

For instance, to manage technology-based emerging business transactions like “Credit lending and crowdfunding” services an Egyptian regime takes action by launching a National Council of Regulatory body running the necessary reforms in line with digital payment and e-commerce law (N. Alam et al., 2021, p. 226). Similarly, other countries such as Bahrain introduced SandBox, Saudi Arabia introduced “Fintech Saudi” the UAE launched Blockchain for 50% of government transactions by 2021, and Kenya put in place an M-pesa payment system to strengthen and develop to regulate a fintech system accordingly (N. Alam et al., 2021, p. 226).

Accordingly, this study is focused on equity-based lead crowdfunding while other methods such as donation-based and reward-based crowdfunding forms are accepted as if it is viable to maximize the beneficiary's benefit in light of the Islamic financial system. Therefore, by practicing this program or model it is possible to detach from the interest-based microfinance system and to enhance middle and low-income communities in order to increase their participation and to realize fair and just distribution of resources or funds adequately for the beneficiary to maximize their benefit in the financial sector properly.

5.7 The Integrated Islamic-Crowdfunding-Cash-Waqf Model

In strategy to raise funds and put it into a plan and action, we are exploring numerous fundraising methods such as considering both accredited groups like government entities and charitable organizations whereas both sources of funding which individuals and institutions like banks, microfinance organizations, and insurance companies included as well. We will use social media and internet platforms to reach people around the world and encourage them to contribute to our cause.

Crowdfunding is a popular fundraising method used worldwide, while the cash waqf model has been relevant for centuries, dating back to the Ottoman Empire. By combining these two models, an "Integrated Islamic Crowdfunding-Cash-Waqf Model" can be developed to provide financing that supports financially struggling communities in achieving sustainable economic growth and development in line with

the UN's Sustainable Development Goals for 2030. The study suggests equity-based methods as the primary option, although donation-based and benevolent loans (Qard Hasan) can also be used to raise funds from donors and distribute them to beneficiaries. In this model, beneficiaries use the funds for a period allowed to them, and once the funds are used and the beneficiaries have improved their situation, they return the principal. The coordinator of the project then arranges for recycling the programs to continuity, so that others can benefit from the system in a sustainable way.

Table 5.1: The ICFCW Modeling Resource Allocation and Beneficiary Programs

Resource Allocation	Source of funds	Tools and Pool of Funds	Beneficiary
<ul style="list-style-type: none"> ➤ Crowd funding ➤ Cash Waqf and ➤ Qard Hasan 	<p>Accredited groups such as:</p> <ol style="list-style-type: none"> 1. Governmental entity (funds for special/SME projects), 2. a non-governmental organization (a charitable organization), 3. world bank, 4. IMF, and 5. Businessman, & 6. any Individual fund providers <p>Funds from the Masses, institutions like</p> <ul style="list-style-type: none"> ▪ Business institutions (bank, microfinance, insurance) 	<p>Donation-based and reward-based crowdfunding using via (tools) Social media and Internet sites</p>	<ul style="list-style-type: none"> ➤ New business starter: ➤ Small business, microfinance; ➤ Innovative and creative entrepreneur; ➤ Expansion of existing small businesses; ➤ For higher education loan purposes; ➤ Special project: ➤ Shopping(business)_center-for marketing, ➤ Small Industries: woodwork, steelwork, textile, carpenter, etc.; ➤ Farmers of: fruit and vegetable producers, sheep and goat farming;

Source: Modified Framework From Different Sources

5.8 The Integrated Islamic Crowdfunding-Cash-Waqf Model Modus Operandi

This section work model's modus of the operand is structured as follows:

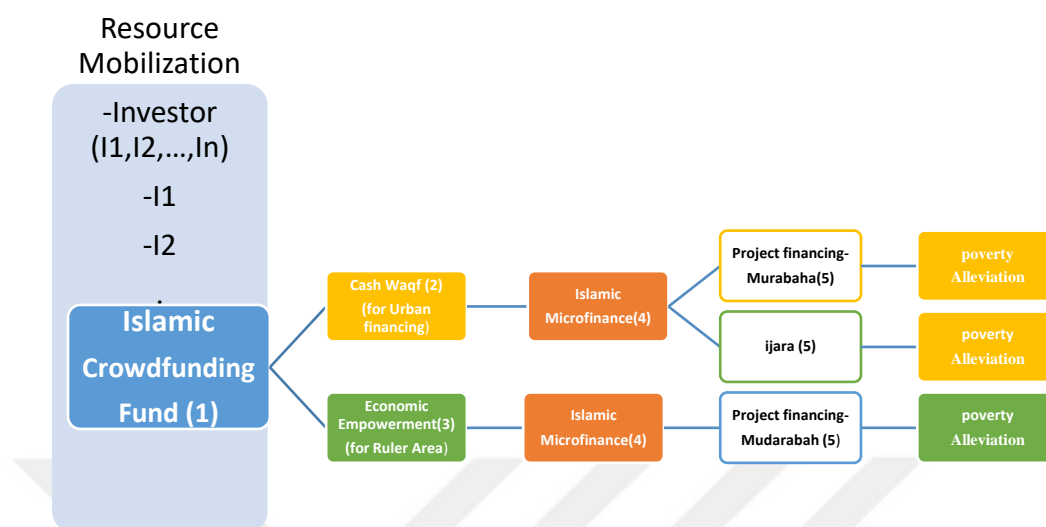


Figure 5.1: Crowdfunding Cash Waqf Model for Economic Empowerment*⁵⁷

Relying on this section of the research's modus of the operand in Figure 5.1, various presupposes or hypothetical notions can be conducted on the basis of the ICFCW framework. It is expected that the benefits of Islamic crowdfunding (ICF) for poverty alleviation in both urban and rural areas. Let's discuss the direction of the draws of the presupposed notions as follows:

⁵⁷ As aforementioned in the above diagram fig 5.1, the resource funds mobilized through crowdfunding methods can be used to finance entrepreneurs in urban areas via cash waqf intended to receive the return of the financing at the end of the day. Whereas resource-mobilized funding rulers area to strengthen economic empowerment for the benefit of the social infrastructure only the principal amount of the funds in both financing models should be utilized always for the financing of the needy group as a form of circulating funds between them as well.

- 1) By integrating funds, ICF can help to increase cash waqf (CW) and Economic Empowerment (EE). This, in turn, can positively impact the services offered by Islamic microfinance (IsMF) institutions;
- 2) Cash Waqf (CW) can also be used to offer IsMF services for poverty reduction;
- 3) While the Economic Empowerment (EE) fund can finance projects in rural areas;
- 4) Additionally, IsMF tools can improve project financing toward poverty alleviation, and;
- 5) The successful execution of these projects can further aid in reducing poverty.

In order to accomplish suitable IFS, the following Islamic finance products are favored as the ICFCW model products in this section. There are Murabaha contracts, Ijarah/leasing contracts, and PLS, in particular, Mudarabah contracts are preferred for the ICFCW model implementation in the first stage, while the mixed or among the other IFI contract methods can be applicable accordingly. A detailed explanation of each Islamic finance instrument is underlined in Chapter III, section 3.5.7.

In this section, as a prime research technique, a semi-structured interview is favored. The target participants of the study were identified through a long assessment via face-to-face discussions, mail, telephone, and social media communications with the focal group. To expand our search, we also utilized online website searching mechanisms from the National Bank of Ethiopia and expert redirection through snowballing network methods. We categorized the expertise areas of the interviewed participants into three groups: 8 experts from MFI professionals, 2 experts from IB, and 6 experts from NGOs. We analyzed and extracted data from their thoughts and opinions, and reviewed documents from various sources to answer our research question and attain our research objective. Our sample size for the pilot study included 320 respondents with a heterogeneous background, including MFI managers, staff, practitioners, students, and those who intend to use financial services in the upcoming one to two years. We analyzed data from 298 valid responses.

5.9 Finding and Data Analysis

In this study, we discussed the collected dataset and its relevance to the ICFCW-based model. Specifically, we explored the combined design of Islamic Crowdfunding (ICF) and Cash Waqf (CW) methods, which rely on the Islamic social financing (ISF) approach as alternative tools for resource mobilization and allocation to productive project funding via IsMF services. The majority of respondents, based on the entire semi-structured interview dataset and pilot survey data, agreed that this integrated model can provide a positive contribution towards IsMF practice. The table of semi-structured interviews with participant expert profiles is organized as follows:

Table 5.2: List of Experts Invited for Semi-structured Interviews

No	Experts Code	MFIs, IB, and NGOs operating in Ethiopia	Views towards Model
1	Expert-A	Somali MFIs, Director	Strong support
2	Expert-B	Somali MFIs, Branch Manager	Support
3	Expert-C	Oromia CSSC MFIs, Branch Manager-1	Support
4	Expert-D	Oromia CSSC, Branch Manager-2	Support
5	Expert-E	Harbu MFIs, Asst. Branch manager	Support
6	Expert-F	Nisir MFIs, Asst. Branch Manager	Support
7	Expert-G	Buusaa Gonofaa MFIS	Support
8	Expert-H	Rays MFIs	Support
		IB	
9	Expert-I	Hijra Bank, IFB Advisor	Strong Support
10	Expert-J	Zamzam Bank, Branch Manager	Support
		NGOs	
11	Expert-K	Oromiya Majlis, Directors	Support

12	Expert-L	Iman Islamic Association (IIA), Directors	Support
13	Expert-M	CDA-Charity and Development Associations, Manager	Partial support (with some reservations)
14	Expert- N	Addis Ababa Islamic Affairs (Majlis)	Support (with other views and own reservation)
15	Expert-O	Oda Charity Association, Project Manager	Strong support
16	Expert-P	Ethiopia Islamic Affairs Board Member	Strong support

5.10 Descriptive Analysis Report

After analyzing the pilot survey data, it was found that 79.5% of respondents were aware of interest-free banking (IFB) but lacked an in-depth understanding of the field. Out of these respondents, 70% favored equity based on the ICFCW model. When it came to IsMF, 65.4% of respondents preferred the PLS model as their first choice, followed by the benevolent-based Qard-hasan model ranked second with 11.1%, and the ICFCW model in third place with 10.4%. Additionally, it was discovered that 64% of respondents were married, 48.7% were aged between 31-40 years and 42.6% were aged between 21-30 years. This means that 91.3% of people aged between 21-40 years favored MFI services, while those aged above 40 were less likely to use MFIs. Furthermore, 56.7% of respondents had a first-degree qualification, 53.4% had worked for or benefited from MFI for less than five years, and 32.2% had 5 to 10 years of experience.

The study's keynote addressed the ICFCW model project, which is financed by both urban and rural enterprises. The project proposes utilizing this model to provide social infrastructure, such as health, education, and water services, among others. Additionally, it aims to alleviate poverty by encouraging underprivileged communities to increase their yield level while ensuring that social infrastructure is provided. This approach is anticipated to break the "vicious circle" of poverty. Hence, the study's keynote is organized as follows:

Keynote1: Islamic Crowdfunding as a Source of Viable Alternative Instrument for Islamic Microfinance

After analyzing the data obtained from the participants in this study on crowdfunding and cash waqf-based instruments, it is evident that crowdfunding is a relatively new concept in Ethiopia, which is gaining popularity quickly, following the trend in the global arena. In recent times, donation-based crowdfunding methods have been widely used in Ethiopia through social media channels. This indicates a growing culture of supporting each other through fintech in line with crowdfunding. So far, it is a promising effort, and encouraging the same experience for commercial purposes like equity-based crowdfunding structures can make it even more effective.

The dataset collected from entire respondents regarding Islamic finance including IsMF is optimistic and promotes interest-free financing. Besides, major experts unanimously agree on Islamic crowdfunding viability, particularly through the current trend of using social media campaigns for donation purposes. However, experts who are experienced in IsMF and IB are more positive regarding crowdfunding awareness than NGO experts. The latter expresses his fear regarding the successful practice of ICF fundraising towards equity-based mainly, due to high poverty in the country.

Expert-L: Interest-free financing is undoubtedly crucial for underprivileged individuals. However, poverty is still a significant issue in both rural and urban areas in the country. Therefore, social protection programs funding from governmental sectors and NGOs-based humanitarian aid can help meet basic needs like food, clothing, and shelter are urgent rather than crowdfunding which is technology-based and the awareness is not big as such even if they are a huge potential.

According to Expert-I from IB, training and capacity-building programs should be prioritized to improve society's financial skills, awareness, knowledge, and attitude, as well as behavioral change related to financial pain issues before engaging in commercial-based activities. Gradually promoting and exercising commercial-based financial activities via donation, reward-based, equity-based, and concessional finance tools is essential.

According to Expert-I: It is essential to prioritize training and capacity-building programs to enhance society's financial skills such as awareness,

knowledge, and attitudes toward financial issues. This approach can bring about behavioral changes that will help individuals or households to develop better financial engagement. Gradually promoting and encouraging commercial-based financial activities through donation, reward-based, equity-based, and concessional finance tools can also help achieve financial stability and success.

In compile, a mass-based productive project campaign fundraising remains critical, not only for donation-based Islamic crowdfunding but also for equity-based commercial business financing crowdfunding structures that play a significant role in improving financial accessibility for low-income societies.

On the other hand in line with Islamic crowdfunding and Economic Empowerment to finance IsMF, the data investigated indicate that major experts have supported the relationship between the ICF effect and EE via IsMF. Previous studies have shown that access to financial services such as IFIs, banks, IsMF, and insurance can improve the “social, political, and economic” status of women (Bhatia & Singh, 2019, p. 191). Additionally, research by (Pal et al., 2022, p. 297) suggests that empowering women with greater access to financial resources can help them become more financially secure and in control of their finances. In this context,

Experts A and B agree that investing in the economic empowerment of women and cash waqf in rural and urban enterprises increases return on investment and gives more power to low-income individuals, particularly household women. This can lead to improved and increased returns that can be used for social infrastructure such as health, education, and water services to alleviate poverty. Therefore, it is important to expand alternative funding options for the poor to maximize their chances of success and increase their income sources.

During the discussion with the experts, there was a general sense of optimism about the ICF model. Many of them believe that it helps to improve micro-enterprises efficiency by providing funds to productive projects through IsMF or counterpart. However, some experts had reservations and differing opinions on the model due to some limitations in showing a grace impact associated with the Economic Empowerment Fund in rural or urban poor people in a short period. This concern is mainly raised by an NGO expert.

As per the views of an experienced individual, referred to as Expert M,

Ethiopia is going through a tough time due to various factors leading to instability in socioeconomic and political conditions. Hence, it is the responsibility of the entire society, and not just the government, to work towards restoring peace in the country for stable business activities. However, people living in unfavorable conditions due to natural disasters, internal conflicts, and forced displacement are suffering severely. Thus, everyone must come together to promote peace and prosperity and extend a helping hand to them. In this regard, ISFs like Waqf and Zakat play a significant role in supporting communities for social mutual cooperation and business activities, helping them to overcome socioeconomic and political damage through microfinance in cooperative acts.

Additionally, it is vital to develop a positive attitude towards accepting the current situation on the ground while trying to change behavior and encourage productive project funding. This can be achieved through philanthropic and equity-based financing, which will lead to economic growth, development, and financial stability.

Another expert, referred to as Expert-G, supports the views of Expert-M and emphasizes the need to understand the issues affecting those who live in far rural areas. To find a solution, it is essential to evaluate their situation and recommend viable methods. A few kilometers outside the capital city of Addis Ababa, one can observe the lives of those living in rural areas, which are extremely poor and comparable to those living hundreds of kilometers away in areas like Borana, Somali, Bonga, Wollega, and Gonder.

To summarize, the experts agree that all stakeholders, including the government, should contribute to developing and enhancing sound facilities projects, and policies to improve the lives of poor and needy people. This can be achieved through donation or charity-based support, concessional funding, as well as equity-based commercial business services. The Ethiopian Government's homegrown economic reform policy claims, financial inclusion products, microfinance institutions, and digital financing programs are promising initiatives for improving the situation in the country in 2030.

Keynote2: Cash-Waqf as a Source of Viable Alternative Instrument for Islamic Microfinance

As a result of further discussion with experts related to the cash waqf financing has a positive effect on urban society financing towards IsMF services the dataset collected and examined from each expert who participated voluntarily in semi-structured interviews and the analyzing results revealed that the majority of expert views are positive towards the ICF model viability not only for donation-based but also for equity-based financial tools into serving as a source of Crowdfunding as well. In line with these views, expert-C, expert-F, and Expert-L;

Cash waqf is not currently in use in the country, according to Expert-C. However, considering its potential impact on communities and its importance, it could be implemented in the future. Expert-F mentioned that although they have some experience with foundation-based project financing, cash waqf is new to their knowledge. He recommended that it is viable and would be crucial if it is properly introduced and marketed to investors or wealthy people, particularly to put funds into socially responsible projects. During the discussion, Expert-L pointed out that Cash Waqf is a new concept. Eventually, Cash Waqf is a great tool for starting a microfinance business as it can serve as an asset capital. It would be beneficial if the government or wealthy individuals could engage in Cash Waqf and create microfinance, which can benefit society at large.

However, the experts who took part in the study from MFIs stated that they are not as well-versed in the practice and operation of cash waqf instruments, while experts from IB and NGOs are more familiar with and have a positive attitude towards it. Overall, the majority of experts who participated in the interviews have positive notions towards the ICFCW models as a means of equity-based financial tools, along with donation-based crowdfunding in some capacity.

Keynote3: The Integrated Islamic Crowdfunding Cash-waqf Model to Funding Project as a Source of Viable Alternative for Islamic Microfinance Services to Alleviate Poverty

As for the IsMF adoption for poor people financing, according to the majority of experts' views relying on the dataset interpretation, there is a successful execution of funded projects that has a positive impact on alleviating poverty. However, some individuals are hesitant to participate in projects financed through MFIs or SMEs due to potential risks. Though the majority has a negative perception of implementing projects in various areas and types, they acknowledge the importance of minimizing risks through professionalism, highly regulated systems, good governance and management, and risk management and mitigation. Expert-M, with extensive experience in project development and management coordination across various organizations, shares views as follows:

As mentioned by Expert M: In certain instances, problems related to faults and fraud may arise in the early stages of project preparation and planning due to interest in conflict. For instance, some humanitarian and investment fund operators depend heavily on experts to write project proposals or develop project plans and content via incentive-based. It can be challenging to address problems that arise intentionally or unintentionally at various stages during fund transfer properly. Thus, fintech like crowdfunding has the potential to eliminate such issues during fundraising methods.

Expert-L agrees with this model's notions and suggests that:

The Muslim community in Ethiopia should have access to fintech for better financial governance and administration of community resources, especially waqf funds generated from sources like mosques, charities, and zakat. This will ensure that the institution can continue to transform society in systematic and institutionalizing easily. By establishing the guidance and roadmap outlined in this study, equity-based and social financing funds can work more effectively and efficiently. Lastly, microfinance can provide opportunities for underprivileged societies, particularly for the Muslim ummah, who do not engage with banks due to collateral requirements and high poverty levels in the country. This means that microfinance can genuinely connect large societies or households to the financial system through financial inclusion services.

The alleviation of poverty is a crucial aspect that all efforts should focus on. This issue is agreed upon by experts and every human being without a doubt. However, traditional systems are not enough to handle the impediments related to a lack of financial services. Therefore, in order to enhance the lifestyle of poor and needy people, it is crucial to integrate fintech into existing or new innovative platforms and mobilize funds for projects and investments.

The prime focus of this work is to create a productive project funds system both for urban-based and rural-based investment businesses for low-income societies in particular. The vast research findings indicate that investments employed in both categories have a great potential for economic improvement associated with investor preferences in their favored areas. The proposed ICFCW model offers a wider range of financial resource solutions and an alternative to traditional tools. For instance, it suggests using waqf resources acquired through crowdfunding, which refers to income generated by waqf assets (Bohari et al., 2021, p. 389). The goal of this model is to reduce poverty by using IsMF instruments to fund projects that promote economic empowerment in rural areas through mudarabah tools. Similarly, it proposes using cash waqf for urban societies, employing Murabaha and ijara financing.

Furthermore, research has shown that diversifying financial tools can enhance people's ability to access finance and utilize financial activities. Therefore, an integrated approach of Islamic crowdfunding and cash waqf is expected to fill this gap as well as suitable for social financing, especially for micro-enterprises like IsMF and others at the individual, group, institutional, and donation levels, for both formal and informal fundraising including equity-based business initiatives. Therefore, this study employed the ICFCW model, which is a merger of Islamic crowdfunding, cash waqf, and Islamic microfinance, to facilitate productive project financing and economic empowerment for poverty alleviation in Ethiopia. To make this model viable and effective, the government needs to facilitate regulations and policy reforms in line with IFIs like Islamic crowdfunding and cash waqf-based services. Some studies showed that arranging Islamic financial regulations enhances sustainable growth and financial stability (Yaş, 2023, p. 403).

4.21 The Relationship Between Financial Inclusion and Fintech (Crowdfunding)

In this chapter, we explore the effectiveness of an integrated Islamic crowdfunding cash waqf model. With the rise of technology, fintech-based resource mobilization through Islamic crowdfunding has become a promising alternative system to raise funds online. This has reshaped the financial landscape and created new opportunities for previously non-existent financial systems. The study aimed to examine the viability of the ICFCW model through various methods, including interviews, a survey, and literature analysis. Out of the invited experts, a certain number participated and provided data showing that traditional financial systems are insufficient to meet the needs of poor and needy people. The basis on the semi-structured interview questions responded majority of experts supported the integrated crowdfunding cash waqf model methods as alternative funding for productive projects in particular, for developmental purposes, and infrastructure projects as well as the cooperative and solidarity issue at large, while some experts do not support the model fully due to various reason explained in the data analysis section like lack of awareness, due to the product is new and some legal and other risk.

The ICFCW model, which combines technology-based platforms with social financing, is seen as a viable option for infrastructure and investment funding for both rural and urban-based projects. This study demonstrates that widening options for products and services can help stakeholders achieve economic growth and financial inclusion for all. Furthermore, the ICFCW model is recommended for social financing, particularly for infrastructure projects such as healthcare, education, and drinking water or canal infrastructure. It is suitable for productive projects and investment funding through IsMF activities for individuals, groups, governmental social protection programs, NGOs, and other institutions. This alternative financing option can help achieve homegrown economic policies and financial inclusion for all. It is worth noting that other models, such as Musharakah, wakalah, salam, parallel salam, istisna, and parallel istisna, can also be included depending on investor interest, project and contract suitability, and the geographic landscape. This will enable both rural and urban-based productive project funds mobilization and implementation accordingly.

5.11 The Major Challenges to Implementing Islamic Crowdfunding in Ethiopia

The implementation of Islamic crowdfunding platforms may face several challenges that are common in different countries. Ethiopia is no exception, encountering issues such as regulatory frameworks, lack of awareness, technological infrastructure, risk management systems, poor shari'ah-compliance infrastructure, lack of supporting institutions, political instability, economic development, cultural norms, and legal dimensions challenges among others.

Despite these challenges, there are opportunities for an integrated Islamic crowdfunding cash-waqf model that can thrive in Ethiopia and bring benefits to various stakeholders, including government bodies, financial institutions, and Islamic scholars. To achieve this, it is necessary to create an enabling environment for Islamic crowdfunding by aligning financial regulations with Sharia principles, educating potential investors and human resources in short-term and long-term capacities building programs for IFI services and entrepreneurs about the principles and benefits of Islamic crowdfunding, and building reliable and secure technological infrastructure. Hence, implementing effective risk management strategies, and strict adherence to fundamental Sharia principles in financial transactions is a pivotal issue, and resolving potential conflicts between Islamic finance requirements and national laws is essential to a large extent. To compile, the success of Islamic crowdfunding is influenced by the overall economic development of the country, which requires targeted efforts to boost economic growth and financial inclusion in a developing economy.

5.12 Conclusion

Digital financial services are now widely used in various sectors, particularly in the financial industry. To provide financial services to economically emerging countries, especially those who are underserved and deprived, the Integrated Islamic Crowdfunding-Cash-Waqf Model is expected to be an effective solution. This model combines crowdfunding and Cash Waqf instruments, along with benevolent loans (Qard Hasan) and donation tools, to encourage entrepreneurs to participate in productive projects and achieve a sustainable economy. To promote financial development, it is essential to improve financial services for existing businesses in various sectors and enhance new ones through digitalization systems. This study aims

to encourage equity-based businesses in line with crowdfunding techniques, among other methods such as donation-based and reward-based crowdfunding forms, to be accepted as viable. This is paramount in maximizing the stakeholders' mutual benefit in light of the Islamic financial system. Social finance, based on a microfinance system, is crucial to enhance the engagement of underprivileged people or low-income communities in financial sector services. This system and proposed framework are expected to ensure the fair and just distribution of resources or funds for the beneficiaries, and it can lead to a sustainable economy.



CHAPTER VI

CONCLUSION AND RECOMMENDATIONS

6.1 Introduction

This study is focused on two areas: inclusive financial development in the light of the theory of planned behavior (TPB) and Islamic social finance, in particular, adopting Islamic microfinance services. Financial development is defined as the enhancement of financial access to and usage of financial products and services in the financial ecosystem in a comprehensive approach to the benefit of the financial pain of entire societies by utilizing a financial inclusion strategy.

The findings of the studies rely on the major 11 hypotheses utilized to investigate the financial dimensions of (financial awareness, knowledge, uncertainty, behavioral change, income level, and financial inclusion) as mediated by the financial attitude in line with adopting IsMF services to respond to the following three research questions:

RQ 1: Does financial (awareness, knowledge, behavioral change, and income level) positively and financial uncertainty negatively influence financial inclusion through IsMF services adoption?

RQ 2: Does financial attitude mediate the relationship between financial (awareness, knowledge, uncertainty, behavioral change, and income level) and financial inclusion through IsMF services adoption?

RQ 3: Can integration of the Islamic Crowdfunding-Cash-Waqf-Model (ICFCW) be a viable tool for resource mobilization and project funding mechanisms through Islamic Microfinance services for poverty alleviation in Ethiopia?

In this chapter, we will discuss and present the study findings in the aspect of TPB to understand in-depth financial inclusion by interconnecting to IsMF services. Furthermore, the research target on to figure out and explore proper financial literacy in accordance with the aspect of financial awareness, uncertainty, knowledge, behavioral change, attitude, and income level factors due to it is difficult to propose

alternative products and services and suitably recommend, criticize, or appreciate fully without understanding what has been happening on the ground in Ethiopia related to this topic.

Relying on research inquiries one and two, the study revealed that financial attitude is influenced by financial awareness, uncertainty, knowledge, behavioral change, and income level dimensions. Conversely, the financial inclusion dimension is determined by knowledge, behavioral change, and income factors. However, the study did not support the positive relationship between financial awareness and the negative relationship between uncertainty and promoting financial inclusion to adopt IsMF services due to limited factors. The results are crucial for Islamic microfinance and IFI practitioners and beneficiaries to transform their financial strategies. Therefore, Islamic microfinance practitioners should focus on building financial awareness, knowledge, behavioral change, and financial inclusion to develop effective financial attitudes for the benefit of IFI products and services.

Furthermore, research question three focuses on an integrated Islamic crowdfunding cash waqf model that can potentially serve as an alternative instrument, particularly by utilizing fintech. This model is important for fundraising, especially through project campaigns that involve multiple stakeholders, and which rely on crowd-based or mass-participating fund collection for impactful project financing. The model can be used to promote sustainable economic development both in rural and urban areas.

This section provides a summarized overview of the most important aspects of the research findings and the study's conclusion. The purpose is to present appropriate recommendations based on the study's outcomes and aligned with sound policies to promote growth and development through necessary reforms.

6.2 Summary of Research Hypothesis

In this section, the research summary of this study is analyzed based on the hypothesis results as follows:

The findings of the H1 hypothesis suggest that there is a positive correlation between financial awareness and financial attitude. This is because the survey participants of IsMF and IFI practitioners and beneficiaries have a some understanding of the

principles and rules of Islamic financial instruments. However, most of the respondents in the survey did not have adequate knowledge of Islamic law or shari'ah ruling, which is critical in implementing IFI products and services. This lack of understanding has led to doubts about the legitimacy of IsMF transactions among some of the respondents. This issue can be attributed to a lack of regular training and education on interest-free banking services and a shortage of skilled staff running the IFIs. Therefore, it is imperative that IsMF managers, staff, practitioners, and beneficiaries, as well as other stakeholders such as the central bank, create opportunities to educate and train operators and users of IsMF services.

Studies have shown that financial awareness not only positively influences the attitudes of potential clients but also creates positive awareness of shari'ah-compliant services like banking (S. Aziz & Afaq, 2018, p. 14). Similarly, this study's findings reveal that financial awareness has a positive correlation with attitudes that support financial inclusion through IsMF services. Enhancing the financial knowledge of the financially excluded and less fortunate can lead to positive attitudes toward economic development and societal well-being, which can empower rural and urban-based financial pain people. Broadly, financial awareness is the foundation of effective and efficient decision-making for competitive financing (Shapiro & Burchell, 2012, p. 93). Financially literate individuals are aware of financial literacy and the provision of money in the financial process position (Shambare & Rugimbana, 2012, pp. 582–583).

According to the H2 hypothesis, there is a negative correlation between financial uncertainty and attitude. The findings of the study suggest that financial uncertainty is inversely related to a financial attitude toward IsMF services relying on the practitioner's and beneficiaries' responses. As financial institutions seek to create a clear future for their stakeholders (both practitioners and beneficiaries), they must minimize the risk of financial uncertainty at a manageable level and encourage inclusive finance. However, due to high levels of uncertainty, financial institutions may be hesitant to extend services to individuals and businesses, resulting in limited branch systems, strict lending criteria, and reduced product offerings. Not only this exclusion but it can also lead to political instability, social unrest, and regulatory ambiguity, which can reduce confidence and trust in financial ecosystems. As a result, individuals and communities may resort to informal and cash transactions. In the

survey, respondents reported a lack of trust in IsMF operations due to inadequate knowledge and uncertainty regarding shari'ah-compliant rulings. Financial uncertainty of income has a high impact on financial services (Shifa & Fuller, 2022, p. 1271). Primarily, IFS has a significant role in fulfilling the socio-economic needs for financial inclusion through IsMF services (Riwajanti, 2013, p. 260).

According to a study on the H3 hypothesis suggests that there is a positive relationship between financial knowledge and attitude, and this relationship is statistically significant. This means that financial attitude has an impact on financial knowledge (D.A.T. et al., 2020, p. 32), especially because a lack of financial knowledge leads to poor financial decision-making. The major reason for this correlation can be attributed to religious factors and others. On the other hand, it is expected that the Muslim population or community in Ethiopia is significant and has been practicing shari'ah education for decades even though it is a more traditional basis. In this context, it is a pivotal attribute to integrate this traditional knowledge with modern scientific Islamic financial services system for the mutual benefit of IFI and beneficiaries, which has led to a basic understanding of shari'ah principles concerning the provisions of financial inclusion towards IsMF services adoption for underprivileged social groups.

In general, knowledge plays a crucial role in shaping attitudes. It encompasses experience, skills, review, content, and thinking (Purwanto et al., 2022, p. 4). With due respect, the financial knowledge of individuals or groups of people can understand the benefits and risks of financial transactions and other business activities. Moreover, it also enables them to make sound decisions regarding financial planning and paves the way for adequate financial management systems in financial institutions. In addition, revamped knowledge enhances financial literacy, which refers to individuals' skills as well as groups of people and attitudes in creating adequate financial decisions and promoting economic development and growth. Studies have illustrated that individuals with advanced financial knowledge are more likely to access financial products and services from banks and other institutions.

A study by Abdul Razak and Amin (2020) indicates that financial knowledge and attitude are both crucial determinants of financial performance and workforce efficiency. The study also shows that financial attitude serves as an independent variable and mediates the relationship between financial knowledge and other factors

such as financial skills and socialization. Additionally, many studies have found that financial knowledge directly impacts the inclusive growth of financial services (S. S. Ibrahim & Sanusi, 2022, p. 91). Furthermore, in general, lack of financial knowledge is the reason for financial illiterate and poor financial management (Shapiro & Burchell, 2012, p. 93). As a result, studies revealed that financial knowledge is crucial to minimizing personal financial anxiety for proper financial accessibility (Shapiro & Burchell, 2012, p. 101), and increasing public attitude associated with IsMF will flourish financial inclusion and poverty alleviation (A. Abdullahi & Othman, 2021, p. 500).

The outcome of the H4 hypothesis illustrates that there is a positive and significant relationship between financial behavioral change and financial attitude. The reason why this hypothesis is supported may be in line with an optimistic approach and positive response towards using IsMF services, having the intention to use IsMF services in the future, and the option to choose this service of conventional microfinance of IsMF and other IFI operators and beneficiaries those who participated in the study. The majority of survey respondents of IsMF managers, staff, and users strongly agree that financial behavior change has been impacting financial attitudes toward behaviors of personal utility (D.A.T. et al., 2020, p. 35). However, some study findings determine that there is a positive relationship between financial behavior, awareness, and attitude (Dinc et al., 2023). Other studies show a significant relationship between financial attitudes, behavioral change, and financial anxiety that impacts decision-making (for instance: student debt has been useful to illustrate their interrelation) (Shapiro & Burchell, 2012, p. 101).

Conversely, a variety of analyses of the literature review showed that attitude influences FI positively as well as it is proper in defining financial literacy across financial dimensions like awareness, knowledge, skills, and behavior (D.A.T. et al., 2020, p. 35). These positive attitudes are more inclined to actively seek out financial opportunities to engage in sound financial decision-making regarding their financial activities. Therefore, in the case of adopting financial products and service options like bank accounts, credit, investment, and insurance, such individuals are more likely to raise their financial inclusion.

Furthermore, there are strong relationships between behavioral change and financial inclusion that are intertwined and mutually fostering. In this viewpoint, FI forces frequently focus on promoting positive behavioral changes by providing financial awareness through short and long-term education and training. Enhancing financial knowledge and skills regarding financial administration encourages individuals' behavior change and habits toward sound financial decision-making (D.A.T. et al., 2020, p. 35). Broadly, when individuals' behavior changes inclined to FI it also improves financial security and raises savings, and this also increases access to funds, as their behaviors tend to associate more closely with impactful business action for the prosperity of the national economy (D.A.T. et al., 2020, p. 35).

Upon analyzing the H5 hypothesis, it was discovered that there is a significant and positive correlation between income and attitude. The research found that financial attitude has a positive impact on the growth of personal income levels (D.A.T. et al., 2020, p. 39; Dinc et al., 2023), which highlights the importance of promoting and fostering saving and investing. Investing in microfinance enterprises supports the less fortunate or low-medium-income societies that can engage in business activities to generate income, by providing them with opportunities to start their own businesses (Riwajanti, 2013, p. 259).

On the other hand, it is evident that individuals who have higher incomes have greater access to financial services, making it effortless for them in order to save and invest their money effectively and efficiently. This notion suggests that those who have lower income levels might face obstacles in achieving financial inclusion. Therefore, the study emphasizes the significance of promoting financial inclusion and providing equal opportunities to individuals from different income levels for economic empowerment (D.A.T. et al., 2020, p. 33).

The findings of this study do not support the H6 hypothesis that financial awareness has a positive relationship or correlation with financial inclusion. The study underlined by (Dinc et al., 2023), indicated that there was a negative correlation between financial awareness and financial inclusion in various countries. Besides, other studies demonstrated that financial awareness and financial inclusion are closely interconnected in the aspects of the financial landscape that play a pivotal role in economic empowerment and social well-being (D.A.T. et al., 2020, p. 40). According

to (D.A.T. et al., 2020, p. 35) study, financial awareness is primarily based on an individual's or group of people's understanding of financial concepts or other interrelated wisdom, while financial inclusion focuses on providing access to comprehensive financial services to the entire population including those who are mainly excluded from the formal or informal financial industry in particular. Moreover, financially aware societies tend to have more advantages in financial management and engagement, making adequate financial decisions, and revamping opportunities. Therefore, a strong bond between financial awareness and inclusive financing is necessary to develop and create synergy for economic growth, mitigate risks, enhance inclusion efforts and finance products, and reduce financial barriers.

Financial awareness forms the foundation for informed financial decision-making, while financial inclusion spreads the benefits of financial products and services to a broader population. As a result, financial awareness helps individuals engage more robustly in their financial matters and mitigate financial risks. Having sufficient knowledge of financial products and their implications enhances people's ability to make better choices that align with their ultimate financial goals, minimizing the risk of falling into debt traps or making poor investment decisions. In compile, financial inclusion, including financial awareness, contributes to economic empowerment, poverty alleviation, and economic growth and development in both public and private sector programs, regardless of the rural or urban setting (D.A.T. et al., 2020, p. 40).

As a result of this study analysis the H7 hypothesis is not supported and that there exists a negative relationship between financial uncertainty and financial inclusion. The connection between financial uncertainty and financial inclusion is not only complex but also multi-dimensional, in one way or another due to immense factors that influence it in different ways. Hence, financial uncertainty refers to the unpredictability of an individual's or a group of people's financial aspects, which can be caused by several factors such as income levels, economic instability, unemployment dimensions, and unexpected expenses among others. Nonetheless, financial inclusion involves revamping access to financial services to large segments, unfortunate or underprivileged societal segments in the financial ecosystem.

On the other hand, financial uncertainty can act as a blockade to financial inclusion. Thus, people who are challenged in finance, especially go under financial instability

due to their lack of access to finance may avoid engaging with formal financial institutions due to their fear of debt or inability to meet regular financial obligations. As a result, they might continue relying on informal or unregulated financial services, which is limiting their access to safer and more affordable options. To address this issue, financial inclusion can be seen as a solution for providing adequate training, education, and health facilities for financing methods, and policy and regulation issues. Financial uncertainty and financial inclusion are interrelated and significant factors for economic empowerment. Reducing financial uncertainty can help individuals and society participate in financial services more effectively, while financial inclusion can improve the well-being of society by providing genuine financial resources.

The results of the H8 hypothesis suggest that financial knowledge and financial inclusion are positively and significantly related. This supports the idea that having good knowledge of financial skills based on shari'ah principles can benefit practitioners and beneficiaries of IsMF services. Poor financial knowledge impacts better financial decision-making (D.A.T. et al., 2020, p. 32). Therefore, it is very important to obtain better financial knowledge to prevent the exploitation of resources from moneylenders and promote economic growth by solving the financial needs of disadvantaged communities and empowering micro-enterprises in both rural and urban areas.

Major literature review and analysis reveal that the relationship between financial knowledge and financial inclusion is the basic foundation for economic growth and development as well as economic empowerment in rural to improve the comprehensive financial welfare of individuals or societies (D.A.T. et al., 2020, p. 33). Financial knowledge empowers an individual's or group of people's understanding of financial products and services. It is an ability to make effective decisions about managing what we have to invest in and mitigate financial risks in the complexities of the financial system.

However, financial inclusion focuses on providing fair and just access to a wide range of financial services to the whole society in a vast range of segments, which are excluded from the financial system with the goal of improving financial stability and economic empowerment. This empowerment leads to increased participation in the financial system. In this notion, financial knowledge is referred to as a critical driver

of financial inclusion for fostering economic growth. Thus highly skilled individuals with financial knowledge can be better at understanding and utilizing financial services effectively as well as enhancing inclusive efforts for fostering IFI, and policymakers for various programs.

To sum up, financial knowledge and financial inclusion are intertwined, with financial knowledge catalyzing broader inclusion. Empowering individuals with financial literacy equips them to engage with an adequate financial scheme, make sound decisions, and access the benefits of financial provision. To foster financial inclusion, it is crucial to invest in financial education and literacy initiatives while it is helping to expand and access inclusive financial products and services. This synergy between knowledge and access is key to promoting economic prosperity and reducing inequalities (Riwajanti, 2013, p. 269).

The finding of the H9 hypothesis is that there is a positive relationship between behavioral change and financial inclusion to adopt IsMF services for poverty alleviation. The major reason why the H9 is supported by these notions may be aligned with current individuals or communities of Ethiopia populations seriously considering that using IsMF services and other IFI is much more grace than conventional microfinance for those who are excluded from the financial system for religious reasons in particular. This is also can motivate the financial provision of IsMF which empowers economic independence and more confidence. Thus, FL improves the financial inclusion of poor people towards economic empowerment, women in particular (D.A.T. et al., 2020, p. 33).

The relationship between behavioral change and financial inclusion is very important for know-how human being to improve their financial participation in the financial system. Behavioral change refers to the process of modifying attitudes, beliefs, habits, and actions associated with the financial decision-making process. It involves adopting new behaviors that align with financial goals and making choices that promote financial stability and growth. Similarly, financial inclusion focuses on providing access to a range of financial products and services to a vast population of those who are outside of the financial industry. With due respect, behavioral change plays a pivotal role in fostering financial inclusion for all ranges of societies. When individuals or communities acquire positive behavior, they become more proactive in accessing

and utilizing both formal and informal financial transactions. As such activities, changes enhance their financial well-being and expand their participation in the financial sectors.

The major key drivers of behavioral change associated with financial inclusion in the light of financial education and literacy. Facilities of short-term or long-term education and training initiatives can empower people with the financial knowledge and skills needed to make effective and efficient sound financial decisions that lead to responsible financial behaviors in financial institutions. On the other hand, behavioral change or intention can encourage building trust and confidence in financial institutions using their services.

In particular, when individuals are motivated to save and invest, they are more likely to seek out savings accounts, retirement plans, and investment opportunities, thereby enhancing their financial inclusion. Furthermore, behavioral change also involves responsible borrowing practices, such as understanding loan terms, and repayment obligations, and managing debt effectively. These behaviors can result in improved creditworthiness and greater access to credit, contributing to financial inclusion. Nevertheless, policymakers and regulators often play a role in promoting behavioral change that supports financial inclusion.

In this context, behavioral change and financial inclusion are intricately connected, with positive changes in financial attitudes and behaviors leading to increased participation in the financial ecosystem. Empowering sound financial decision-making through adequate training, creating trust in financial institutions, and providing access to appropriate financial products and services are all crucial elements of improving financial inclusion (Riwajanti, 2013, p. 270).

The result of the study shows that the H10 hypothesis is that there is a positive relationship between income level and financial inclusion. The prime reason why the H10 supports these relationships aligned with a large number of respondents of the population who participated in the study believes that IsMF service helped them to engage in a business that generates income for them. Engaging in such business opportunities allows them to put aside some amount of money into saving due to IsMF services and they think financial inclusion provides them confidence.

Income and financial inclusion have a strong interconnection. The relationship between them is paramount in business transactions. Income level is literally defined as an individual's or household's earnings and economic resources. It may be divided into different income groups, such as low-income, middle-income, or high-income, based on their annual or monthly earnings. On the other side, financial inclusion aims to provide access to a vast population in order to fill the gap of different income levels in financial services of those who are excluded from the financial system in particular through savings, credit, insurance, and payment systems by improving financial stability and economic empowerment. In this context, income level is a crucial determinant of an individual's or society's ability to access financial activities. Meanwhile, wealthy people typically get it easier to access financial services in IFI, however, it is difficult and high obstacles for lower-income individuals to such opportunities due to high risk and uncertainty.

Thus, it is expected and suggested that financial inclusion is a tool to be utilized for reducing income inequality, and economic welfare for a positive impact on people by promoting entrepreneurship, and also can enhance economic stability for lower-income populations (Yu, 2021). Currently, it plays a role in shaping the relationship between income level and financial inclusion through policies and regulations at the government level. So far sound policymakers suggested doing furthermore on financial institutions in line with regulators' issues to consider income-based disparities in access to financial services and implement strategies to make financial inclusion more equitable and inclusive including targeted policies like subsidies for low-income housing or microfinance initiatives and to bridge the gap in financial access for lower-income populations by investing in profitmaking investment (Lawhaishy & Othman, 2022). The contemporary times of the rise of digital financial services have the potential to minimize the impediment to financial inclusion, especially for those with lower incomes. For instance: Mobile banking and digital payment platforms can provide access to financial transactions in areas where physical infrastructure is limited.

As a result, income level is very important in determining an individual's ability to access and utilize the financial system. Conversely, financial inclusion is developing a bridge to fill the gap by providing essential financial tools to lower-income

populations, thereby reducing income inequality (Lal, 2021, p. 1787; Yu, 2021), and promoting financial stability (Le et al., 2019, p. 320), flourishing socioeconomic mobility (Lal, 2021, p. 1782), and fostering social and economic empowerment (Lal, 2021, p. 1768).

Upon analyzing the H11 hypothesis, the study found a highly significant positive relationship between financial attitude and FI. The main reason that is why this hypothesis is supported related to, to begin with, the major study population respondents strongly agreeing that using and following IsMF services is a good notion and profitable as well. Some studies have shown that the adoption of IsMF service can aid in poverty alleviation efforts by enabling individuals to participate in the financial system. These studies suggest that using the IsMF service is a viable option for economic empowerment (Ascarya & Sakti, 2022, p. 237). As a result, micro-fintech instruments can be utilized to facilitate digital-based fundraising for businesses and social funding zakat and waqf online, which can then be distributed offline. Additionally, peer-to-peer (P2P) financing generated online can be used to finance small-scale enterprises (Ascarya & Sakti, 2022, p. 236).

It should be noted that the R-square value in Table 5.14 indicates that only 44% of the variance of the attitude towards financial matters can be explained by the independent variables in this study. This suggests that financial attitude is strongly influenced by other independent factors. Similarly, the model explains that 40% of the variance in Financial Inclusion (FI) can be attributed to financial awareness, uncertainty, knowledge, behavioral change, and income. Mean that 60% of the variability of FI is not explained by the model observed data.

Nevertheless, the study suggests that an integrated crowdfunding cash waqf model investment in rural and urban enterprises can help promote financial inclusion and alleviate poverty. The model proposes to use the returns from this investment to provide social infrastructure such as health, education, and water services. This approach would encourage the poor to increase their income levels while also breaking the vicious circle of poverty through the provision of social financing via infrastructure. Adequate financial awareness, knowledge, and behavioral change can be achieved by reducing financial uncertainty to manageable levels.

6.3 Summary of Study Related to Financial Inclusion

This section reiterates and sums up the topic of financial inclusion, which has emerged in particular as a hot issue in a contemporary phenomenon due to the reason associated with the lack of prudential financial services across the globe, especially in developing countries. This implies that finance sectors require urgent reforms in line with improving financial products and services accessibility in rural and urban development policy through productive project investment towards financial pain societies (Alliance Financial Inclusion, 2010, p. 01). In these regards, the investment should be underlined and depend on the principle of the real economy based and free from exploitation and zero-sum game products for enhancing productivity in various sectors such as services sectors, agriculture sectors, and industry sectors, among others.

Besides relying on financial development dimensions towards adopting IsMF services interrelated to the lens of the theory of planned behavior line with financial literacy have been employed in this study in aspects of financial knowledge, financial attitude, financial behavioral change, and income level has an influence on financial inclusion. Broadly, giant awareness improves confidence and trust in the financial industry between individuals, groups of people, and financial institutions, and it is also an important element for financial inclusion. Also, it supports educating the public and private sector stakeholders on the issue of financial products and services such as savings, credits, loans, and debt management.

In addition, it can be conducted by the public and private sectors as well as NGOs and financial institutions, among other sectors. Accordingly, with an increasing awareness of individuals, or groups of societies, business enterprises become more aware of their rights and responsibilities, understand the potential risks and benefits of financial services, and also encounter to start developing the capacity to accelerate the financial system efficiently. Eventually, in this light, this study illustrated that financial awareness is still not developed at a crucial level, and it needs more attention to decrease the gaps in Ethiopia's shari'ah-compliant IFS sectors.

For all that, having financial knowledge means being aware and understanding financial concepts, as well as knowing how to use financial products and services effectively. In other ways, several studies' finding results revealed that knowledge plays a significant role in improving financial inclusion. In other words, when

individuals have good skills and abilities in financial concepts, products, and services, they are more likely to engage in business activities, make adequate financial decisions, and provide relevant financial tools. In this aspect, it is indicated that the knowledge of individuals to use effective financial options increases, and the advantage of choosing the utmost and available resources leads to the utilization of financial services.

As uncertainty decreases, people become more willing to engage with financial institutions and make long-term financial decisions. They also tend to use other financial services more widely. However, economic uncertainty, political instability, social unrest, and regulatory ambiguity can all reduce confidence and trust in the financial industry. This can lead individuals and groups to rely on cash transactions or informal financial systems. Businessmen may also choose to avoid financial systems during uncertain times due to unknown market stability and security.

Studies show that financial inclusion and behavioral change are strongly interconnected and mutually beneficial. Financial inclusion involves promoting positive behavioral changes through financial education and training, both short-term and long-term. By improving financial literacy and skills, individuals are encouraged to make sound financial decisions and develop good habits. These behavioral changes lead to improved financial security, good savings habits, and valuable access to funds, resulting in impactful financial action.

To summarize, lower income levels or lack of financial freedom can be a hindrance to financial inclusion. Individuals with limited income face more challenges in meeting their basic needs and may delay their decision to save or invest. Furthermore, they may not have access to funds from formal institutions, further restricting their financial inclusion. In such cases, informal financial systems such as borrowing from relatives, using informal savings groups, or practicing cash-based business transactions become their only options. Although income level is a pivotal factor, financial inclusion is determined by various other factors of financial literacy.

6.4 Summary of Study Related to IsMF and Its Implications

The study's conceptual framework and model are expected to create a favorable environment for Ethiopia's financial industry, taking into account the trends of technological change in the sector, its potential, and the country's prospects.

Therefore, the framework of the study can be viable and relevant for the ICFCW model in the following areas:

The Issues Related to Fundraising: The study's viability and relevance are evident in several areas, such as fundraising. The study explores various funding sources, including crowdfunding and cash-waqf-based methods. While the ICFCW framework is expected to be useful for campaign-related fundraising, additional resources can be mobilized from other sources, such as the Federal Government, regional states, NGOs, public and private sectors, developmental financial institutions, and individual/group societies. Therefore, it is recommended that the National Bank of Ethiopia (NBE) guide financial institutions, including banks, insurance companies, and other financial services providers, to prioritize project funding associated with the real economy and sound productive project implementation through MFI (Microfinance Institution) and others. This includes corporate social financing funds, excess money, and impactful investment project funds associated with MFIs to support the real economy and social infrastructure projects.

The Issue Related to Implementing The Model: This study expected that the ICFCW framework would be implemented as a leader agency by IsMFIs. And also it is expected that the NGOs will take more responsibility and accountability in the implementation of poverty alleviation in the low-income level society of people of more financial pain in particular. Additionally, the Federal government at the state level, regional state administration at the regional, zone, and city administration in urban-based and rural areas have done their jobs for social assistance and development programs, humanitarian aid organizations, and waqf (endowments), as well as NGOs play a significant role. Accordingly, in the implementation process due to the reason of dual or mixed financial system underlying in the country, the model may vary in some aspect from place to place in line with region state to other region or city to city as well as rural to urban in accordance with a significant aspect, for instance, instead of the ICFCW model it may amend as ICFIsMF model (Integrated Crowdfunding

Islamic microfinance based model) or CWIsMF (Integrated Cash waqf Islamic microfinance based model) and other related framework.

Economic Empowerment: Nowadays Economic empowerment (EE) plays a crucial role in alleviating poverty in both rural and urban areas, as shown by numerous studies. Therefore, various social assistance and women's empowerment programs prioritize it. This study aims to provide financial support to economically vulnerable individuals in rural and urban areas, including women, to enable them to undertake productive projects. In addition to financial support through qard-hasan (benevolent loans), the study also emphasizes the importance of building their skills and capacity through training and other relevant support. This approach will enhance their ability to participate in productive activities and improve their living standards.

Islamic Microfinance Services: The main target of the study focuses on developing a project financing mechanism in rural and urban areas to improve the well-being of underprivileged or poor people. The ultimate goal is to implement integrated poverty alleviation mechanisms⁵⁸ through well-designed microfinance services. To achieve this, the ICFCW framework needed as one option as an alternative to be implemented successfully, and sharia-compliant instruments diversified with the support of the National Bank of Ethiopia Authority. Financial development issues such as financial awareness, knowledge, behavioral change in financial attitude, and effective project financing campaign techniques can be practiced online or offline through the lens of inclusive finance using the TPB-based approach.

6.5 Summary of The Financial Stability and Debt Sustainability

In this section, we will provide an overview of the study on financial inclusion services and resource mobilization tools, such as a merger of crowdfunding and cash-waqf tools. These methods are supposed to serve as viable alternatives to promote financial

⁵⁸ Ahmet Suayb Gundogdu, *A Modern Perspective of Islamic Economics and Finance*, Istanbul Zaim Sabahattin University, Turkey, (Emerald Publishing Limited, 2019), 124.

stability and debt sustainability while aligning with adequate policies that are in line with realistic fiscal and macroeconomic policy adjustments channeling to real economic growth and development. We will discuss the financial inclusion strategy associated with both conventional financial systems and shari'ah-compliant rulings, particularly in altering financial instability and public debt problems. Last but not least, we will discuss the way forward to inclusive financial systems for unprivileged individuals or groups of people aligned with access to finance.

6.5.1 Financial Stability in The Light of Financial Inclusion

The concept of financial stability historical development is associated with addressing the role and functions of the central bank and other public officials on price stability (Allen & Wood, 2006, p. 152). Vast studies demonstrated that there is no single anonymous definition of financial stability has been found due to its features as such a complex mult-dimension financial institution's structures, product and service characteristics as well as market conditions among others play a certain role (Allen & Wood, 2006, p. 152; Morgan, 2014, p. 3).

Nevertheless, some parties describe financial stability as “*A specific increase of the rate of price index,*” which denotes price stability, while others state it as “*A range of rates of increase.*” Notably, the United States of American Reserve system “Fed” prefers to consider vast statutory purposes including price stability before the definition which is framed as follows: “*Price stability is a state of affairs in which expectations of generally rising (or falling) prices over a considerable period are not a pervasive influence on economic and financial behavior*” at large (Allen & Wood, 2006, p. 153).

Financial stability determines the public policy direction to alter financial instability that causes economic and social damage (Allen & Wood, 2006, p. 154). Therefore, explaining financial stability is much easier than financial instability (Morgan, 2014, p. 3). As a result of the Asia Development Bank Institute's (ADB) work on the relationship between financial stability versus financial inclusion, the study findings revealed that analysis of the literature in line with the sound good financial inclusion could have a positive or negative effect on financial stability (Morgan, 2014, p. 13), and increasing the SME lending aids financial stability and play a significant function

in by reducing non-performing (NPLs) as well (Morgan, 2014, p. 1). The studies underlined that the performance of MF aligns with social responsibility and financial sustainability in Ethiopia revealing that there is no significant difference between government and non-government MFI, however, there is a difference associated with the model that emphasizes the business performance based on social responsibility (Shifa & Fuller, 2022, p. 1269). Financial inclusion and financial stability have been interconnected corporations that balance in between the ultimate target they may reach (Le et al., 2019, p. 320).

Accordingly, this study promotes inclusive financial instruments such as crowdfunding whether Islamic-based crowdfunding or the counterpart. With due regard, the financial inclusion financing system played a significant function in resource mobilization and allocation via a well-designed campaign of productive project funding (i.e., higher education services projects) mechanisms online platform highly aligned with investment-based to stabilize economic growth and development (Khairuddin & Ishak, 2023, p. 56). Accordingly, it enhanced in a sustainable manner by alternating the approaches far beyond only paying attention to saving deposits-based as well as associated with increase or decrease of the interest rate of price to adjust price stability to investment and relying on financial inclusion through alternative tools financing system centered on MFIs. In another saying, either policymakers or public authorities will be recommended to take into consideration by focusing on the power of financial inclusion functions in price stability paradigms, economic growth, promoting entrepreneurship initiatives, and waqf and Infaq support crowdfunding model development (Khairuddin & Ishak, 2023, p. 56), broadly.

6.5.2 Debt Sustainability and Inclusive Financing

A basis on the nature of debts, some debts are riskier than others due to they vary from one to another because it was not born equal. Accordingly, debt arrangement on account of local vs foreign currency, long vs short-run maturity arrangement, and extra entire concerned directly impact exposure to adverse shocks (Abbas et al., 2020, p. 152). With due regard, the experience of financial turmoil in Greece illustrates the tremendous paramount of utilizing realistic fiscal and macroeconomic policy at large. Similarly, the occasion of the financial crisis in 2007-09 following the bubble of

derivative products and services outcomes indicated that fiscal improvement of public finance should be in line with a sustainable track (Abbas et al., 2020, p. 160). According to Abbas et al. (2020), studies employed revealed that the Greece regime debt ratio to GDP has become unrealistic, which is expected to decline from 149 percent of GDP in 2013 to 120 percent of GDP by 2020, while in reality debt raised to 180 percent of GDP ahead of stabilizing.

Islamic economics and finance encourage the Shari'ah ruling principle that is channeling through sale, lease, and sharing as well as debt-creating approaches by excluding loan or debt-based services notions which is tremendously practiced by the conventional system at large. Some studies' outcomes demonstrate that equity-based financing enhances the performance and sustainability of IFS rather than its opponent which is debt-based financing (Faiz, 2023). On the other hand, Islamic finance has not only theoretically promoted the Shari'ah ruling or principle of financing based on ethical and moral business but also offers in practical ways a sustainable financial ecosystem, which has been adjusting the contemporary applied counterpart financial system issues at large.⁵⁹

Besides, the Islamic financial system relies too heavily on debt creation, which can lead to issues when paying off debts on a schedule. While debt creation itself is not problematic, paying off debts according to the maturity due date schedule has its own consequences and it has contributed to economic inequalities⁶⁰ like other opponent financial systems. In this context, to promote inclusive financial development, both conventional and Islamic financial institutions need to explore alternative methods. This includes using integrated Islamic crowdfunding, cash-waqf, IsMF, Zakat social assistance facilities, and qard-hasan to raise funds for productive projects that promote

⁵⁹ Nuri Aksoy, "What Monetary Authorities (central Banks) Should Do For Islamic Banks": *Towards a New Theory of Finance: Can Islamic Finance Be It?*, ed. Monzer Kahf (Publisher: Istanbul Zaim Sabahattin University, 2022), 293.

⁶⁰ Ahmet Suanyb Gundogdu, *A Modern Perspective of Islamic Economics and Finance*, Istanbul Zaim Sabahattin University, Turkey, (Emerald Publishing Limited, 2019), 120.

real and stable economic growth for the entire society. Additionally, zakat can be a more effective means of ensuring fair and just wealth and income distribution than traditional tax systems, regardless of whether a country is developed or developing.

Zakat can help resolve social and economic turmoil by distributing income more equitably, leading to an increase in aggregate economic development and growth (Ben Jedidia & Guerbouj, 2021, p. 137). As a result of the COVID-19 pandemic has highlighted the importance of zakat institutions in supporting societies in financial distress, including those struggling to pay off debts to financial institutions. Therefore, this notion shows that in order to alter inequalities created by the free trade market (i.e., capitalist system), Zakat wealth distribution and Waqf (i.e., cash waqf) implementation have potential and promises for poverty alleviation⁶¹ regarding future responsiveness in debt sustainability (Yamaludin et al., 2023).

6.6 Recommendations for Further Research and Policy Issues

Based on this research study, the following recommendations are suggested for entire corresponding segments:

The National Bank of Ethiopia (NBE): The National Bank of Ethiopia plays a crucial role in the country's financial system. In order to maintain and emphasize adequate financial stability, it is recommended to create favorable conditions for both national and foreign financial institutions to collaborate and cooperate accordingly. The collaboration should be in line with both conventional and Shari'ah-compliant systems. Additionally, the NBE should modify and update its policies to adapt to the technological revolution brought about by fintech-based, digital payment, and digital finance. The bank should expand its Shari'ah-compliant instruments to include Ijarah, Wakalah, Kafalah, Salam, Istisna, and Qard-hasan as well as Sukuk investment among others. It should also introduce fintech-based crowdfunding and cash-waqf products to expand services to help rural and urban-based projects that benefit needy and poor people in particular those who are unprivileged for economic empowerment and

⁶¹ Ibid., pp. 119-129.

financial development, respectively. It is important to prioritize genuine transactions associated with the real economy and robust inclusive financial segments for sound economic growth and financial stability over pure financialization-based financing.

The Ethiopian Islamic Affairs Supreme Council (Majils): The Ethiopian Islamic Supreme Council affair is a higher Islamic authority responsible for religious issues and the development of the Islamic community and the whole nation in the country. Its main objective is to create a conducive environment for the practice of righteous duties associated with faith and daily life, for the benefit of the entire society. This includes promoting Sharia-compliant business activities, certifying halal income-earning businesses, and providing scientific-based training and education for Islamic financial services at all levels, from federal to regional states, urban and rural areas, and even local districts, in accordance with Islamic law.

In addition to promoting morality teaching according to Allah's will, the council is also responsible for establishing institutions such as the Waqf (pl. Awqaf & Cash waqf), zakat institutions, and research and development centers (R&D) at different levels, working with both public and private firms to implement Sharia-compliant services in line with IFIs in particular. It also encourages and ensures sadaqah and philanthropic activities, which play a vital role in uplifting underprivileged communities, including orphans, and building better nations with human dignity parallel with Ibada (din) education as well.

Islamic Financial Institutions (IFIs): Islamic financial institutions, such as Islamic banking and Islamic insurance (Takaful) as well as others, have the responsibility to encourage and support community-based projects that adhere to Shari'ah principles. These projects should primarily aim to benefit the public interest, promote the growth of nations, and increase the welfare of the Ummah. For instance, establishing R&D centers that focus on more than just profit-maximizing and prioritize innovative ideas to create job opportunities and improve the well-being of the community by producing skilled human resources benefits nations as well as business institutions.

Policy and Regulatory Bodies: The Federal Governments and Regional States should consider ethical and moral principles beyond the merely positive economy, particularly those aligned with Shari'ah-compliant services, by collaborating with The Ethiopian Islamic Affairs Supreme Council. This would help in sound policy-making,

strategy implementation, and achieving adequate economic development, economic empowerment, social protection policy, and financial stability at several stages for prosperous nations, both at macro to micro levels. Encouraging the development of well-organized and institution-based ISF-oriented facilities for fund collection and distribution in Ethiopia is crucial. It is recommended to support such institution operations to achieve economically improved social segments in particular low-income. The federal and regional public sector, private sector, and distinguished scholars should respond to this urgent call for support in policy and developmental-behavioral finance to uplift society from financial pain and extreme poverty. Such an approach can be also viable and supportive in achieving the SDG program's initiatives agenda for poverty alleviation.

According to (Demirguc-Kunt et al., 2017), studies have shown that financial services can play a crucial role in promoting long-term economic growth and productivity by investing in the education sector. For instance: currently, in Ethiopia, higher education is financed through a "cost-sharing program" in which both the government and students contribute to tuition, course fees, dormitory, and meal plans. The program requires students to pay back their share of the cost after they graduate and secure jobs in either the public or private sector. This financing program involves "interest" or "riba", but it caters to those who prefer Shariah-compliant options, particularly for higher education. So far, Universities can use the service Sukuk to issue credit hour licenses in order to be in line with the Islamic ruling financing modes as an option.

Furthermore, for small industry businesses and rural-based agro-economy products, salam and parallel salam contracts based on Islamic finance principles are recommended. Meanwhile, bakeries, woodwork & steel factories, and tailors can use istisna and parallel istisna for Shariah-compliant financing. Cash Waqf is a new type of crowdfunding-based fundraising for SMEs, while the Qard-Hasan loan system is another option (Hasan & Ahmad, 2020a). Profit-loss sharing, charitable contracts, and hybrid deals are among the financing models for SMEs. Guidelines and best practices on Islamic venture capital have also been issued to support SMEs. Studies suggested that Shariah-compliant tools such as mudarabah, musharakah, and wakalah for IFS (Oseni et al., 2013).

6.7 Conclusion Remarks

Studies in social psychology, health psychology, social economics, and personality behavior have previously explored the Theory of Planned Behavior (TPB), which focuses on intentions, subject norms, and behavioral control. However, this work centers on the TPB's application in the aspect of financial development constraints, including financial awareness, financial knowledge, financial uncertainty, financial behavioral change, income level, and financial inclusion. Besides, by mediating financial attitudes, this approach promotes the adoption of IsMF services for poverty alleviation in unprivileged societies. Financial inclusion is the core element of economic growth and development in this context, which is the target of any country's priorities policy program and strategies to improve its financial development in order to improve its people's likelihood. With this regard, FI is a high consideration as a poverty alleviation policy and program implemented across the globe. Poverty has various stages, while the monetary aspect needs more attention for the socio-economic aspect of the people of financial pain and highly vulnerable to reduce the number of population living under the line of poverty by generating less than \$2 US per day.

As for research methods, a combination of qualitative and quantitative or mixed methods, as well as the CFA and SEM techniques has been conducted. The data collected from both primary and secondary sources have been analyzed and interpreted to provide appropriate solutions and models for enhancing financial development and economic empowerment for low-income individuals in emerging economies, specifically in Ethiopia's microfinance services and IFI sector. Hence, crowdfunding and cash waqf methods are also favored as effective funding tools for microfinance, which can improve access to affordable financing and reduce the cost of capital. This model serves as a problem-solving mechanism, providing the appropriate procedures to carry out direct and indirect problem-solving processes to address research questions and provide financial solutions.

The main contribution of this research paper is associated with initiative of the financial inclusion towards adopting IsMF services through the lens of the TPB. As a result, the TPB can significantly influence financial development by increasing financial awareness and knowledge through education and training, and by promoting behavioral change to improve income levels and community well-being. The study's

conceptual framework includes a regression analysis, which indicates that there is no significant relationship between awareness and financial inclusion. Thus, the weight assigned to awareness in predicting FI is not significantly different from zero at the p-value greater than 0.05 ($p=0.5090$). In this sense, the hypothesis awareness has a positive relationship with FI is not supported. Additionally, the hypothesis that links financial uncertainty and financial inclusion is not supported, as the p-value is greater than 0.05 ($P= 0.3746$).

Hence, the hypothesis that relates financial awareness, financial uncertainty, financial knowledge, financial behavioral change, and income level connected to financial attitude is supported. Moreover, the hypothesis that financial knowledge, financial behavioral change, and income level have a positive relationship to financial inclusion is supported. Conversely, the results of these hypotheses suggest that only uncertainty outcomes have a negative correlation with financial attitude, whereas in a financial aspect of awareness, knowledge, behavioral change, and income level have a positive correlation with financial attitude, with most of them having statistical significance. Therefore the research findings demonstrated that independent factors influenced financial attitude as well as financial inclusion.

One of this study's contributions is the development of the ICFCW model, which combines crowdfunding and cash waqf to finance projects through microfinance. The focus of this model is on including low-income individuals in all aspects of the project, even in challenging conditions. The model consists of four main categories that aim to reduce poverty: crowdfunding for fundraising and fund pooling, cash waqf for implementing parties, economic empowerment for the target beneficiaries, and Islamic microfinance for project financing. Studies from various countries have shown that similar models have the potential to be effective in poverty alleviation, especially in fundraising, affordable financing, and human capital empowerment. "Integration of Waqf and Islamic Microfinance for Poverty Reduction," a study (M. a Haneef et al., 2013, p. 1) from Sudan, Malaysia, Indonesia, and Bangladesh, provides valuable insights for policymakers, fund managers, and implementing parties in Ethiopia.

To create a more inclusive and socially oriented financial industry, it is crucial to promote classical social cooperation or national-based approaches. Traditional systems can be adapted to the modern technological and digital era by customizing

good practices. For instance, it is essential to adopt the cash-waqf model from the Ottoman period and establish waqf as well as zakat institutions at country levels based on social cooperation and solidarity (Chapter Three: Section 3.10.3).

Finally, to channel productive project finance into the real economy and assist poor people with financial access and usage to poverty alleviation, sound policies, effective microeconomic and macroeconomic programs, and comprehensive strategies associated with inclusive financial ecosystems of implementation, employing alternative financing like the ICFCW model can be considered. This approach can accelerate innovation and promote financial inclusion.



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APPENDICES

Appendices 1: Survey Questionnaire I

“Promoting Financial Inclusion through Islamic Microfinance in Ethiopia ”

Dear Respected Participant;

I am Adem Aman and I'm doing my study in Islamic Economics and finance the title of my research is “Promoting Financial Inclusion through Islamic Microfinance in Ethiopia ”. The core objective of this study is to investigate the status of Shariah-compliant financing for Microfinance|SMEs in Ethiopia. Accomplishing the goals of this research entails gathering information from the practitioner is very crucial. Thus, I would like to invite you to participate in this research by answering the questions included in this questionnaire. Your participation will help me obtain factual findings expected to contribute towards improving Ethiopia Microfinance|SMEs' access to finance in general and Shariah-compliant financing in particular. I would like to assure you that any information provided by you will be only used for scientific research purposes, and your response will be treated confidentially. Your cooperation is highly appreciated.

Thanks in advance.

Adem Aman SHIBU

Department of Islamic Economics and Finance,
Istanbul Sabahattin Zaim University

Part 1: Survey Questionnaire

Section 1: Answer the following questions by ticking the box that indicates your answer associated with demographic information.

- (1) What is your gender? (1) Male (2) Female
- (2) What is your level of education?
 - (1) Primary School
 - (2) Secondary School
 - (3) Certificate/Diploma

- (4) University Degree
- (5) Higher Degree
- (6) Other
- (3) Please indicate your age group from the following?
 - (1) under 20 years
 - (2) 21 - 30 years
 - (3) 31 - 40 years
 - (4) 41 - 50 years
 - (5) Over 50 years
- (4) What is your Marital status?
 - (1) Single
 - (2) Married
 - (3) Divorced
- (5) How many years of business experience do you have?
 - (1) Less than 5 years
 - (2) 5 - 10 years
 - (3) 11 - 15 years
 - (4) More than 15 years
- (6) What is your religion?
 - (1) Muslim
 - (2) Christian
 - (3) Protestant
 - (4) Others
- (7) How long has your firm/microfinance been in business?
 - (1) less than 5 years
 - (2) 6 - 10 years
 - (3) 11 - 15 years
 - (4) Above 15 years
 - (5) None

Section 2: Answer the following questions by ticking the box that indicates your answer associated with a business model and entrepreneurial success

- (8) Do you have a plan for your business? (1) Yes (2) No

- (9) What is the main activity of your company?
- (1) Trading/Commercial
 - (2) Manufacturing
 - (3) Service Provision
 - (4) Benevolent/NGO
 - (5) Mixed
 - (6) Other
- (10) Are you aware of Islamic finance methods' existence? (1) Yes (2) No
- (11) Would you be willing to use Islamic finance methods if they are available? (1)Yes (2) No
- (12) Which account types or service(s) are you using?
- (1) Saving(Wadia/Amanah)
 - (2) Credit/Murabaha
 - (3) Money transfer/Hawala
 - (4) Insurance
 - (5) Mixed
- (13) In your opinion which mode of business is more relevant for Interest-free/shariah-compliant Microfinance
- (1) Commercial-based (Mudarabah and Musharak-based) model
 - (2) Crowdfunding-Cash-Waqf (Crowdfunding and Cash waqf based) model
 - (3) Benevolent/NGO-based (Qard-hassan/Interest-free loan-based) model
 - (4) Crowdfunding-Cash-Waqf and Benevolent/NGO-based Mixed model
- (14) Do you think that Islamic finance is a viable financing option for Ethiopia Microfinance/SMEs? (1) Yes (2) No
- (15) The number of clients in my company is increasing gradually
- (1) Strongly Disagree
 - (2) Disagree
 - (3) Undecide
 - (4) Agree
 - (5) Strongly Agree
- (16) I am properly repaying the money I borrowed from an interest-free loan and savings institution
- Strongly Disagree

- Disagree
- Undecide
- Agree
- Strongly Agree

(17) Entrepreneurial success and Profits of my enterprise tend to increase

- (1) Strongly Disagree
- (2) Disagree
- (3) Undecide
- (4) Agree
- (5) Strongly Agree

(18) Turnover of my enterprise tends to increase

- (1) Strongly Disagree
- (2) Disagree
- (3) Undecide
- (4) Agree
- (5) Strongly Agree

(19) The number of employees in my enterprise started to increase

- (1) Yes (2) No

(20) The number of products in my enterprise tends to increase (1) Yes (2) No

(21) Household (HH) /Family savings tend to increase

- (1) Strongly Disagree
- (2) Disagree
- (3) Undecide
- (4) Agree
- (5) Strongly Agree

Section 3: Please tick the box that indicates your answer regards to Microcredit financing information.

(22) There are various savings options with interest-free service

- 1. Strongly Disagree
- 2. Disagree
- 3. Undecide

4. Agree

5. Strongly Agree

(23) The process of saving money is based on the will of the saver (1) Yes

(2) No

(24) Credit/Murabaha service delivery is simple and risk-free

▪ Strongly Disagree

▪ Disagree

▪ Undecide

▪ Agree

▪ Strongly Agree

(25) The loan amount is sufficient (1) Yes (2) No

(26) The loan repayment period is sufficient (1) Yes (2) No

(27) The loan repayment process is simple and risk-free

▪ Strongly Disagree

▪ Disagree

▪ Undecide

▪ Agree

▪ Strongly Agree

(28) I am generally happy with the delivery of interest-free loans and savings

(1) Yes (2) No

(29) An interest-free Crowdfunding-cash-waqf model is more suitable for
Microfinance

➤ Strongly Disagree

➤ Disagree

➤ Undecide

➤ Agree

➤ Strongly Agree

(30) An interest-free loans (Qard-hassan/benevolent) model is more suitable
for Microfinance

▪ Strongly Disagree

▪ Disagree

▪ Undecide

▪ Agree

- Strongly Agree
- (31) An interest-free Commercial (equity/investment) based model is more suitable for Microfinance
- Strongly Disagree
- Disagree
- Undecided/Neutral
- Agree
- Strongly Agree

Part 2: Interviews Questionnaire

- How does Islamic finance, especially Microfinance in particular increase Financial Inclusion?
- What is the financial awareness of crowdfunding in Ethiopia?
- How cash-waqf-based instruments can be applied to Islamic microfinance to improve financial inclusion in Ethiopia?
- Is there any empirical relationship between Islamic finance/microfinance and financial inclusion for economic empowerment?
- What are the desired outcomes of microfinance?
- Does Ethiopia require a crowdfunding model to assist Islamic microfinance?
- What are the appropriate ways to apply Islamic finance/microfinance in the rural and urban to boom and foster the economy by enhancing the participation of middle and low-income society?
- How does the Integrated Crowdfunding-Cash-Waqf Model fill the bill for achieving the desired outcomes of the microfinance business?
- What are the major factors considered important obstacles to the bank's involvement with microfinance?

Appendices 2: Survey Questionnaire 2

This questionnaire applies to respondents who use or intend to use interest-free credit and savings services. Please help us by answering the questions correctly as the questionnaire is intended to gather accurate information about the services provided in your area that is aimed for scientific study purposes only.

Thanks in advance for your cooperation!

Part 1: Demographic Profile of the Respondents

- Gender 1) Male 2) Female
- Age 1)21- 30 2)31- 40 3)41- 50 4) Above 50
- What is your religion? 1)Islam 2)Christian 3)Waqefata 4)Others
- Occupational Status 1) Public sector 2) Private sector 3) Self-employed 4) Student 5) Other
- Martial status 1) single 2) married 3) divorced
- Educational level 1) High school 2)Diploma 3) Bachelor's 4) Master's 5) Ph.D.
- Income level per month 1) < \$100 2) \$101 - \$199 3) \$200 -\$299 4) \$300-\$500 5) > \$501
- Which account types or service(s) are you using? 1)Saving(Wadia/Amanah) 2)Credit/Murabaha 3)Money transfer/Hawala 4)Insurance 5)Mixed

Part 2: Based on the given information tick an appropriate box to match your response promptly.

Information related to awareness, uncertainty, knowledge, attitude, Financial Inclusion, and behavioral change towards Islamic microfinance (IsMF) in line with Respondent based on 5 Likert scale points of (1-strongly disagree to 5-strongly agree).

No	Content	1	2	3	4	5
	Awareness					
1	I am quite aware of the principles of IsMF					
2	I have a sufficient understanding of IsMF principles					
3	I am aware of most of the IsMF transactions					
	Uncertainty					
4	Islamic microfinance (IsMF) operations are risky					

5	IsMF operations are not trustworthy					
6	Islamic microfinance (IsMF) cannot rely on interest					
7	I am not confident in the IsMF practice					
8	The Islamic microfinance (IsMF) is uncertain					
	Knowledge					
9	All religious adherents can use the IsMF service.					
10	I know that the IsMF service is based on shari'ah principles.					
11	The IsMF service does not charge interest.					
12	I know that the IsMF service is based on profit sharing.					
	Attitude					
13	Using IsMF services is profitable.					
14	Following IsMF services is a good idea.					
15	Using the IsMF service helped me.					
16	Using the IsMF service is worth considering.					
17	Using IsMF finance is a wise idea.					
18	Using IsMF is a good idea.					
	Behavioral Change					
19	I will seriously consider using IsMF services.					
20	I plan to use IsMF services in the future.					
21	I intend to use IsMF services in less than three years					

22	I will choose the IsMF service in the future.					
23	I intend to use IsMF services in less than two years.					
24	I intend to use IsMF services for years to come.					
	Income					
25	I believe that IsMF has helped me to engage in a business that generates income					
26	The Capital invested in the business has been increasing due to IsMF					
27	My income has been augmented due to IsMF					
28	I generate more than 2 \$ per day due to IsMF					
29	I put a portion of my income into saving due to IsMF					
30	I can lend money easily to my friends due to IsMF					
	Financial Inclusion					
31	IsMF is helpful in preventing exploitation in the hands of moneylenders					
32	IsMF is foot forward toward solving the financial needs of poor people and encouraging economic empowerment					
33	IsMF is helpful in improving a country's economic growth					
34	IsMF gives economic independence and confidence to poor people.					

Note: The scale used for the items is five Likert scale points from 1-Strongly Disagree 2-Disagree 3-Neutral 4-Agree and 5-Strongly Agree.

Source of Survey Questionnaire

No	Question	Factor/construct	References
1	1-3	Awareness	Aziz & Afaq (2018), Cogent Business & Management
2	4-8	Uncertainty	Purwanto et al. (2022), Cogent Business & Management
	9-12	Knowledge	Purwanto et al. (2022), Cogent Business & Management
	13-18	Attitude	Purwanto et al. (2022), Cogent Business & Management
	19-24	Behavioral change towards IsMF	Purwanto et al. (2022), Cogent Business & Management
3	25-30	Income	Maouloud & Abdullah Othman (2021), TUJISE
4	31-34	Financial Inclusion (FI)	Rastogi & Regabiruntha E. (2018)

Source: Modified By Authors from Different Resources

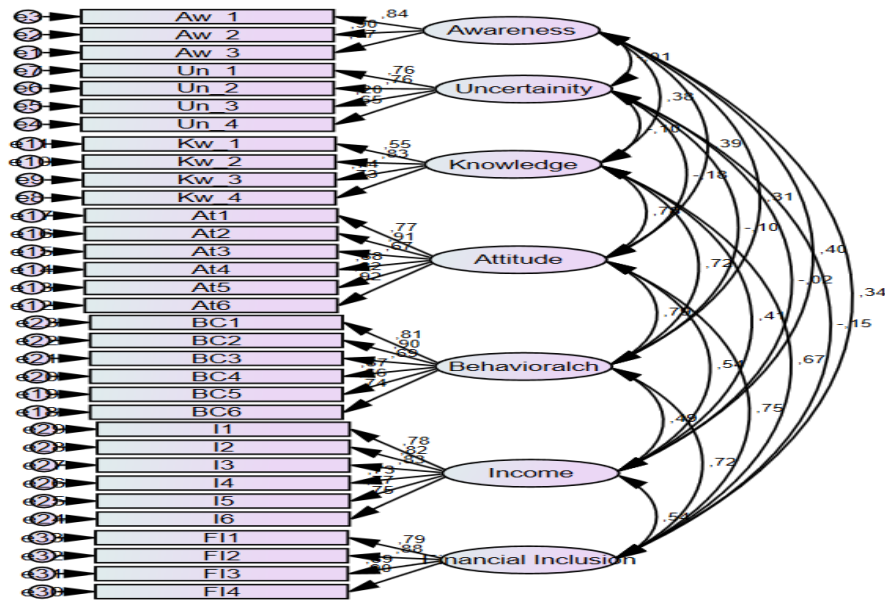


Figure: CFA-1 Model Fit (Default) Before uncertainty of item -3 scale ommited.

Table 4.12: Total Effect and Mediation Model Test Result rely on Baron and Kenny (1986)

The total (direct and indirect), two-tailed P-value effect of **Awareness** on **FI** is significantly different from zero at the 0.001 level ($p=0.4105$ two-tailed). This is a bootstrap approximation obtained by constructing two-sided bias-corrected confidence intervals.

(-0.0233 is the lower endpoint of a two-sided bias-corrected bootstrap confidence interval for the standardized total (direct and indirect) effect of **Awareness** on **FI**. The confidence level is 90 percent by default. And 0.0575 is the upper endpoint of a two-sided bias-corrected bootstrap confidence interval for the standardized total (direct and indirect) effect of **Awareness** on **FI**.)

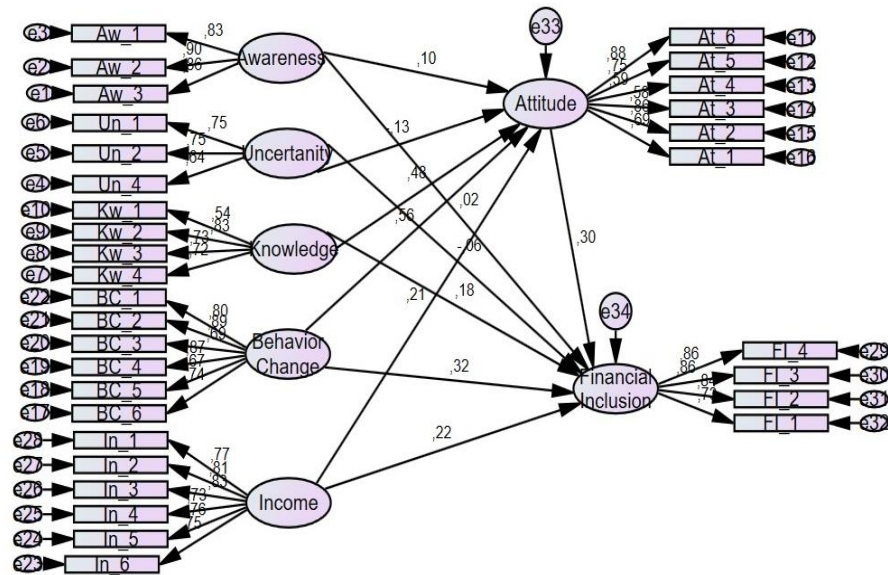
Uncertainty-FI (total effect)

The standardized total (direct and indirect) effect of **uncertainty** on **FI** is significantly different from zero at the 0.001 level ($p=0.0002$ two-tailed). (-0.1154 is the lower endpoint of a two-sided bias-corrected bootstrap confidence interval for the standardized total (direct and indirect) effect of **uncertainty** on **FI**. The confidence level is 90 percent by default. And -0.0425 is the upper endpoint of a two-sided bias-corrected bootstrap confidence interval for the standardized total (direct and indirect) effect of **uncertainty** on **FI**.)

Direct Effect Awareness-FI(total effect)

P-value, The standardized direct (unmediated) effect of **Awareness** on **FI** is significantly different from zero at the 0.001 level ($p=0.9669$ two-tailed). This is a bootstrap approximation obtained by constructing two-sided bias-corrected confidence intervals.

(-0.0393 is the lower endpoint of a two-sided bias-corrected bootstrap confidence interval for the standardized direct (unmediated) effect of **Awareness** on **FI**. And 0.0377 is the upper endpoint of a two-sided bias-corrected bootstrap confidence interval for the standardized direct (unmediated) effect of **Awareness** on **FI**.)



Default Correlation Model Figure

Assessment of normality (Group number 1)						
Variable	min	max	skew	c.r.	kurtosis	c.r.
FI_1	1,00000	5,00000	-,77890	-14,92158	,28824	2,76097
FI_2	1,00000	5,00000	-,92555	-17,73106	,34743	3,32789
FI_3	1,00000	5,00000	-1,30186	-24,94006	1,31030	12,55082
FI_4	1,00000	5,00000	-,99557	-19,07236	,38210	3,66001
In_1	1,00000	5,00000	-,26989	-5,17031	-,32446	-3,10786
In_2	1,00000	5,00000	-,24217	-4,63939	-,26278	-2,51703
In_3	1,00000	5,00000	-,06739	-1,29094	,00412	,03945
In_4	1,00000	5,00000	-,07031	1,34695	-,12842	-1,23012
In_5	1,00000	5,00000	-,18815	-3,60442	-,33538	-3,21252
In_6	1,00000	5,00000	-,08272	-1,58474	-,33095	-3,17001
BC_1	1,00000	5,00000	-1,10870	-21,23972	1,29043	12,36054
BC_2	1,00000	5,00000	-1,49586	-28,65662	2,26361	21,68227
BC_3	1,00000	5,00000	-,69732	-13,35874	-,22937	-2,19706
BC_4	1,00000	5,00000	-1,40325	-26,88234	1,86415	17,85596
BC_5	1,00000	5,00000	-,58701	-11,24546	-,30261	-2,89859
BC_6	1,00000	5,00000	-,76861	-14,72442	,09376	,89810
At_1	1,00000	5,00000	-,95078	-18,21442	,76559	7,33333
At_2	1,00000	5,00000	-1,48512	-28,45087	2,47985	23,75355
At_3	1,00000	5,00000	-,46054	-8,82275	-,18126	-1,73620
At_4	1,00000	5,00000	-,78127	-14,96700	,24452	2,34216
At_5	1,00000	5,00000	-1,21471	-23,27057	1,25723	12,04254
At_6	1,00000	5,00000	-1,49259	-28,59390	2,47445	23,70187
Kw_1	1,00000	5,00000	-,67950	-13,01729	-,54308	-5,20191
Kw_2	1,00000	5,00000	-1,29806	-24,86726	1,50178	14,38500
Kw_3	1,00000	5,00000	-,95895	-18,37085	,19194	1,83851
Kw_4	1,00000	5,00000	-1,00418	-19,23723	,62537	5,99016
Un_1	1,00000	5,00000	,86943	16,65588	,17766	1,70170
Un_2	1,00000	5,00000	1,26500	24,23386	1,20893	11,57987
Un_4	1,00000	5,00000	,73611	14,10188	-,07087	-,67886
Aw_1	1,00000	5,00000	-,24712	-4,73418	-,86146	-8,25161
Aw_2	1,00000	5,00000	,04814	,92225	-,93244	-8,93147
Aw_3	1,00000	5,00000	,10461	2,00395	-,85281	-8,16878
Multivariate					346,11700	174,08933

Figure 5.1: CFA-2: the final version for data analysis (modified)

**Appendix 5.1: Standardized Total Effects- Two-Tailed Significance (BC)
(Group number 1 - Default model)**

	In	BC	Kn	Un	Aw	At	FI
A	,0002	,0002	,0002	,0002	,0027	...	...
FI	,0002	,0002	,0002	,0002	,4113	,0002	...
FI_1	,0002	,0002	,0002	,0002	,4102	,0002	,0002
FI_2	,0002	,0002	,0002	,0002	,4099	,0002	,0002
FI_3	,0002	,0002	,0002	,0002	,4113	,0002	,0002
FI_4	,0002	,0002	,0002	,0002	,4133	,0002	,0002
In_1	,0002	...	...	...	...	...	...

	In	BC	Kn	Un	Aw	At	FI
In_2	,0003	...	...	...	...	...	...
In_3	,0003	...	...	...	...	...	...
In_4	,0002	...	...	...	...	...	...
In_5	,0003	...	...	...	...	...	...
In_6	,0002	...	...	...	...	...	...
BC_1	...	,0002	...	...	...	...	...
BC_2	...	,0003	...	...	...	...	...
BC_3	...	,0002	...	...	...	...	...
BC_4	...	,0003	...	...	...	...	...
BC_5	...	,0002	...	...	...	...	...
BC_6	...	,0002	...	...	...	...	...
At_1	,0002	,0002	,0002	,0002	,0027	,0002	...
At_2	,0002	,0002	,0002	,0002	,0027	,0002	...
At_3	,0002	,0002	,0002	,0002	,0026	,0002	...
At_4	,0002	,0002	,0002	,0002	,0027	,0002	...
At_5	,0002	,0002	,0002	,0002	,0026	,0002	...
At_6	,0002	,0002	,0002	,0002	,0027	,0002	...
Kw_1	...	...	,0002	...	...	...	...
Kw_2	...	...	,0002	...	...	...	...

	In	BC	Kn	Un	Aw	At	FI
Kw_3	,0002	...	...	...	...
Kw_4	,0002	...	...	...	...
Un_1	,0002	...	...	...
Un_2	,0003	...	...	...
Un_4	,0002	...	...	...
Aw_1	,0002	...	...
Aw_2	,0002	...	...
Aw_3	,0002	...	...

Appendix 5.2: Indirect Effects - Two-Tailed Significance (BC) (Group number 1 - Default model)

	In	BC	Kn	Un	Aw	At	FI
A	...	...	...	...	...	...	...
FI	,0001	,0002	,0002	,0001	,0018	...	...
FI_1	,0002	,0002	,0002	,0002	,4076	,0002	...
FI_2	,0002	,0002	,0002	,0002	,4093	,0002	...
FI_3	,0002	,0002	,0002	,0002	,4108	,0002	...
FI_4	,0002	,0002	,0002	,0002	,4105	,0002	...

	In	BC	Kn	Un	Aw	At	FI
In_1	...	...	...	...	...	...	...
In_2	...	...	...	...	...	...	...
In_3	...	...	...	...	...	...	...
In_4	...	...	...	...	...	...	...
In_5	...	...	...	...	...	...	...
In_6	...	...	...	...	...	...	...
BC_1	...	...	...	...	...	..	...
BC_2	...	...	...	...	...	...	...
BC_3	...	...	...	...	...	...	...
BC_4	...	...	...	...	...	...	...
BC_5	...	...	...	...	...	...	...
BC_6	...	...	...	...	...	...	...
At_1	,0002	,0002	,0002	,0002	,0027	...	...
At_2	,0002	,0002	,0002	,0002	,0027	...	...
At_3	,0002	,0002	,0002	,0002	,0027	...	...
At_4	,0002	,0002	,0002	,0002	,0026	...	...
At_5	,0002	,0002	,0002	,0002	,0026	...	...
At_6	,0002	,0002	,0002	,0002	,0026	...	...
Kw_1	...	...	...	...	...	...	...
Kw_2	...	...	...	...	...	...	...

	In	BC	Kn	Un	Aw	At	FI
Kw_3
Kw_4
Un_1
Un_2
Un_4
Aw_1
Aw_2
Aw_3

**Appendix 5.3: Standardized Direct Effects - Two-Tailed Significance (BC)
(Group number 1 - Default model)**

	In	BC	Kn	Un	Aw	At	FI
At	,0002	,0002	,0002	,0002	,0027	...	...
FI	,0002	,0002	,0007	,0087	,9669	,0002	...
FI_1	...	...	...	...	...	...	,0002
FI_2	...	...	...	...	...	...	,0002
FI_3	...	...	...	...	...	...	,0002
FI_4	...	...	...	...	...	...	,0002
In_1	,0002	...	...	...	...	...	...
In_2	,0003	...	...	...	...	...	...

	In	BC	Kn	Un	Aw	At	FI
In_3	,0003	...	...	...	...	...	...
In_4	,0002	...	...	...	...	...	...
In_5	,0003	...	...	...	...	...	...
In_6	,0002	...	...	...	...	...	...
BC_1	...	,0002	...	...	...	...	...
BC_2	...	,0003	...	...	...	...	...
BC_3	...	,0002	...	...	...	...	...
BC_4	...	,0003	...	...	...	...	...
BC_5	...	,0002	...	...	...	...	...
BC_6	...	,0002	...	...	...	...	...
At_1	,0002	...
At_2	,0002	...
At_3	,0002	...
At_4	,0002	...
At_5	,0002	...
At_6	,0002	...
Kw_1	,0002	...	...	...	...
Kw_2	,0002	...	...	...	...
Kw_3	,0002	...	...	...	...
Kw_4	,0002	...	...	...	...

	In	BC	Kn	Un	Aw	At	FI
Un_1	,0002	...	...	...
Un_2	,0003	...	...	...
Un_4	,0002	...	...	...
Aw_1	,0002	...	...
Aw_2	,0002	...	...
Aw_3	,0002	...	...

Maximum Likelihood Estimates

Regression Weights: (Group number 1 - Default model)

		Estimate	S.E.	C.R.	P	Label
Aw_3 <---	Awareness	1,00000				
Aw_1 <---	Awareness	,99671	,02107	47,30364	***	
Un_4 <---	Uncertainty	1,00000				
Un_2 <---	Uncertainty	1,12731	,04748	23,74480	***	
Un_1 <---	Uncertainty	1,12066	,04708	23,80533	***	
Kw_4 <---	Knowledge	1,00000				
Kw_3 <---	Knowledge	1,07348	,03452	31,10016	***	
Kw_2 <---	Knowledge	1,10783	,03182	34,82099	***	
Kw_1 <---	Knowledge	,87743	,03735	23,48948	***	
At_6 <---	Attitude	1,00000				
At_5 <---	Attitude	,93734	,01674	55,98257	***	
At_4 <---	Attitude	,82604	,02244	36,80460	***	
At_3 <---	Attitude	,82381	,02248	36,64555	***	
At_2 <---	Attitude	1,00276	,01539	65,16775	***	
At_1 <---	Attitude	,92369	,01975	46,76863	***	
BC_6 <---	BC	1,00000				
BC_5 <---	BC	,88706	,02707	32,76534	***	
BC_4 <---	BC	1,14337	,02959	38,64075	***	
BC_3 <---	BC	,98275	,03415	28,77430	***	
BC_2 <---	BC	1,17738	,02911	40,44753	***	
BC_1 <---	BC	1,05335	,02912	36,17576	***	
In_6 <---	F1	1,00000				
In_5 <---	F1	1,01528	,02493	40,72570	***	
In_4 <---	F1	,96312	,02882	33,41445	***	
In_3 <---	F1	1,06843	,02845	37,55080	***	
In_2 <---	F1	1,04240	,02993	34,83163	***	
In_1 <---	F1	,98321	,03053	32,20952	***	
FI_4 <---	FI	1,00000				
FI_3 <---	FI	,93084	,01519	61,28493	***	
FI_2 <---	FI	,95929	,01621	59,18726	***	
FI_1 <---	FI	,82615	,01742	47,42553	***	
Aw_2 <---	Awareness	1,03903	,02025	51,32212	***	

Figure: Maximum Likelihood Estimates Regression Weights (Default Model)

CV

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A) EDUCATION

Ph.D.: IZU, Islamic Economics and Finance, 2024, Istanbul

Msc: Ondokuz Mayıs University, Masters of Science in Business, 2018, Samsun

Undergraduate (BA): Haramaya University, Management, 2012, Harar

B) ACADEMIC EXPERIENCE

I have been working as a V/Coordinator and Researcher at the Africa Training and Coordination Center (AKEM) since September 2021.

Since 2018, I have also been a Trainer at Oda Research and Development (ORDA) in Istanbul. As a team coordinator and facilitator for ORDA, I provide training in various topics such as time management, leadership, Islamic banking, and finance.

From September 2019 to June 2021 in Istanbul, I worked as an Administrative Assistant and R&D researcher at Eminevim Financial Company. I also provided translation services in English, Turkish, and other Ethiopian languages.

Between October 2018 and August 2019, at Sahara Group, as a supervisor and coordinator of seminars and training in Istanbul.

From June 2010 to September 2013, I worked as the Supervisor of Education at the Public-Tiyo Woreda Educational Office in Asella/Arsi, Asella/Ethiopia.

Finally, from July 2008 to May 2010, I worked as a Teacher at the Public-Tiyo Woreda Educational Office in Asella /Arsi, Asella/Ethiopia.

C) INTERESTS

My Interests include technology, Islamic economics and finance, leadership, organizational strategy, innovation, reading, Playing football, walking, swimming, and entertainment.

D) PUBLICATIONS

i) Articles:

- 1) Adem Aman SHIBU and Monzer KAHF, Development of Takaful Industry in Turkey: Challenges and Prospects, Journal of Islamic Economics, <https://doi.org/10.55237/jje.1061660> V.2(2), (2022), 48-66.
- 2) Adem Aman SHIBU and Abdelkader CHACHI, Development of Islamic Banking and Finance: The Contribution Of Ahmed Abdul Aziz Al Najjar, Avrasya Sosyal ve Ekonomi Arařtırmaları Dergisi, V.8(4), (2021), 223-235.
- 3) Adem Aman SHIBU and Gürhan UYSAL, Organizational Innovation and Organizational Creativity Strategies in SMEs: The Effect of Transformational Leadership (Kobilerde Örgütsel Yenilik ve Örgütsel Yaratıcılık Stratejileri: Dönüřümcü Liderlik Etkisi), V.7(2), (2020), 41-49.

ii) Book Chapter:

- 1) Adem Aman SHIBU, “Reforming Corporate Behavior in Light of Islamic Finance”: *Towards a New Theory of Islamic Finance: Can Islamic Finance Be it?* Editor, Monzer Kahf (Publisher: Istanbul Sabahattin Zaim University, 2022), 425-452.

iii) Conference Paper: İlim Yayma Vakfı Lisansüstü Öğrenci Sempozyumu June 2-3, 2023

- 1) Integration of Islamic Crowdfunding, Cash Waqf, and Islamic Microfinance for Poverty Alleviation: Case Study of Ethiopia (*Adem Aman SHIBU and Ahmet Şuayb GÜNDOĞDU*)
- 2) Promoting Financial Inclusion Through Islamic Microfinance in Ethiopia: Empirical Investigation by Theory of Planned Behavior (TPB) (*Adem Aman SHIBU, Burhan ULUYOL, and Ahmet Şuayb GÜNDOĞDU*)