Journal of Islamic Finance, Vol. 3 No. 1 (2014) 038-048
IIUM Institute of Islamic Banking and Finance
ISSN 2289-2117 (O) / 2289-2109 (P)

The Perception of Micro-entrepreneurs and Petty Traders on Conventional and Islamic Microfinance: A Case Study of Pakistan

Kausar Abbas[a], Dzuljastri Abdul Razak[b], Norma Md Saad[c]

[a]*PhD candidate at IIUM Institute of Islamic Banking and Finance*
[b]*Department of Finance*
[c]*Department of Economics*
International Islamic University Malaysia

Abstract

Microfinance is a general term that entails the provision of financial services to micro-entrepreneurs or to those who do not have access to banking facilities. The current issues faced by micro-entrepreneurs are difficulties in seeking financing from financial institutions due to lack of sufficient collateral, no credit history, irregular or uneasily verified sources of income. Consequently, they often rely on relatives or local moneylenders who charge high interest rates. Thus, on grounds of equity and justice, Islamic microfinance seems to provide an alternative needed by them. This research deals with the perceptions of micro-entrepreneurs and petty traders towards conventional and Islamic microfinance in Pakistan. It further investigates the intention to use Islamic microfinance and challenges for the micro-entrepreneurs. A total of 270 people were surveyed by means of self- administered questionnaire. The sample comprises 81 percent males and 19 percent females in three major cities; Rawalpindi, Lahore and Peshawar. Results of this study indicate that Islamic microfinance is a preferred choice as compared to conventional microfinance and best answer to poverty eradication. Although, Islamic microfinance is a new concept but majority of respondents had some understanding of this concept. However, the respondents also expressed their dissatisfaction to the management of Islamic banks.

Keywords: Microfinance, poverty, Pakistan

1. Introduction

Microfinance is the provision of financial services such as, loans, savings and insurance to micro-entrepreneurs and small businesses for raising their standards of living. For this reason, microfinance is also considered a well-established poverty alleviating program which gives people an opportunity to borrow, save, invest and protect their families through active participation and benefit from the development activities. This is especially so in Pakistan. The initiatives taken by the State Bank of Pakistan (SBP) in establishing Khushali bank and the microfinance institutions in the private sector are an indication of the poverty focused strategies executed by Akhtar Hameed Khan (Nobel Peace Prize Nominee). The well-known concept of community development through self-help and self-reliance in the second half of the 20th Century was introduced by his Comilla project which became a model of rural development in various parts of the world.[1] However, the objective of the microfinance institutions is not only to provide credit facilities but equally responsible to enhance the social welfare of the society and self-employment of the poor. On the contrary, the rural poor fall into the poverty trap due to multiple compounding factors such as exploitation and discrimination, lack of social support and social capital (children, relatives, friends, educated people), lack of productive assets, education and skills, and lack of their own organization (Rahman 2010; Woodhouse 2004).

In addition to solving poverty as a multidimensional phenomenon, microfinance has been embraced by financial institutions that it can be effective and powerful tool. According to Morduch and Haley (2002), there is also evidence that the poorest can certainly benefit from microfinance in terms of diversifying their household income and reducing vulnerability. Thus, if the poor have no collateral to offer, no history and no decent monthly income, then they have very little chances of getting financing from banking institutions. Consequently, they often rely on relatives or local moneylenders who charge high interest rates as Rahman (2010) evaluates the impact of microfinance program on rural poverty by using 1,020 responses in a sample survey and describes that the interest rates for institutional sources vary from 15-20 percent, even higher for the non-institutional sources which range from 33 to 120 percent or sometimes around 120-140 percent. Thus, on the grounds of equity and justice, Islamic microfinance seems to provide an alternative much needed by the poor because the Islamic system is based on justice.

The central bank of Pakistan decided to re-launch the Islamic banking in 2001 as an alternate and equivalent system to provide the products for serving the public interest. A comprehensive legal, regulatory and Shari'ah complaint framework was commenced before launching the initiative. Guidelines for the provision of Islamic microfinance have been prescribed by the State Bank of Pakistan (SBP), but these focus on how conventional banks can follow or provide such services, rather than formation of new institutions. On the other hand, very few initiatives have been undertaken in following the philosophical foundation of Islamic microfinance. However, visible examples of Islamic microfinance can be counted through few NGOs in Pakistan as Islamic Relief Pakistan (IRP), Akhuat, Karakoram Cooperative Bank (KCB), National Rural Support Program and Muslim Aid (Muhammad and Shirazi, 2010).

The present scenario of Islamic banking has also been described by Deputy Governor, State Bank of Pakistan (SBP) Yaseen Anwar at the 4th International conference on Islamic Banking and Takaful' held in Lahore Pakistan on 2nd November 2010, where he said,

> "*The Islamic banking was facing two challenges that were holding its growth; there was a need of capacity-building of Islamic bank institutions and awareness of Islamic banking products among the masses. "However, opportunities are there for Islamic banks to increase its market share by focusing on SMEs, micro-finance and housing finance*".[2]

Furthermore, Islamic microfinance is a serious project to move forward with fairness, equity, transparency, socio-economic justice and principles of risk-sharing. That is why; Islamic microfinance is concerned with much more than just abstaining from charging interest.

Considering the above mentioned factors, the main objective of this study is to investigate the perceptions of micro-entrepreneurs and petty traders about awareness, challenges and motivation towards Islamic and conventional microfinance. However, this study argues that Islamic banking is not addressing the needs of financing particularly those poor and micro-entrepreneurs in Pakistan who are more committed to Islamic principles as expressed by Muhammad and Shirazi (2010) that Islamic banks have not perceived microfinance as a viable opportunity like conventional banks. Hence, Pakistan has one of the lowest financial penetration levels in the world with 56% of the adult population totally excluded and another 32% informally served.

Subsequently, the information gathered through survey of micro-entrepreneurs and petty traders could actually be used to assist in making decisions on how to improve products, service or organizational structure of microfinance service providers as well as Islamic banks.

The paper is organized into five sections. The following section presents a brief review of literature. Section three deals with the methodology adopted in the paper. It is then followed by the data analysis and findings. The last section concludes and offer recommendations.

2. Literature Review

Microfinance has been recognized worldwide as a significant tool for poverty alleviation. Nevertheless, access to financial services by the poor is indeed more important for the success of market based and sustainable poverty alleviation programs. Moreover, the single biggest problem with conventional microfinance is interest rate either high or low, is rejected by large sections of the Muslim societies as tantamount to riba (Obaidullah and Khan 2008). However, Islamic microfinance provides competitive and ethical Shariah compliant interest free alternative to conventional microfinance. In the context of Muslim societies, affordable and Sharia compliant financial services are fundamental to addressing poverty. Microfinance services assist the poorest to earn a living, grow their businesses and produce new jobs, pulling the whole communities out of poverty.[3]

Therefore, Ahmed (2004) argues about the social aspect of Islamic banks which can be recognized by financing the poor micro-entrepreneurs. Islamic banks can provide microfinance to the poor more efficiently and effectively than microfinance institutions (MFIs). Islamic banks can operate microfinance programs by using profit and loss sharing principle and improve the economic conditions of the poor. Experience from Rural Development Scheme (RDS) of Islamic Bank Bangladesh Limited supports this statement. In other words, financing the poor micro-entrepreneurs by Islamic banks demonstrate that this is not only for the promotion of social justice and cooperative economic principles but to assist them in raising their living standard.

Although, there are a growing number of literatures available for microfinance and Islamic finance, however, the existing literatures on Islamic microfinance concentrate on the practical applications. There are very few examples of actual microfinance institutions (MFIs) operating in the field of Islamic finance and Islamic banks involved in microfinance. According to the Consultative Group to Assist the Poor (CGAP, 2008) survey, the supply of Islamic microfinance is concentrated in a few countries like Indonesia, Bangladesh and Afghanistan. Islamic microfinance accounts for only about 0.5 percent of global microfinance even with a global Muslim population of about 1.2 billion. Moreover, existing Muslim borrowers of microfinance institutions (MFIs) still have a preference for Islamic microfinance products. They are banking with conventional microfinance institutions (MFIs) as no Islamic alternative is available to them.

It is observed that various banks discriminates among the rich and the poor borrowers by distributing smaller loans with higher interest to the poor and bigger loans to the rich borrowers with lower interest. This discriminatory manner about prioritizing the rich over the poor to extend bank loans can be distinguished in the report which was derived from the publication of the Reserve Bank of India (RBI) (2009).

> "*Considerably the rich borrowers (with credit limit over Rs. 1 crore) have around 75% share in loans where interest rates are less than 10%, against poor borrowers (with credit limit between Rs. 2 to 5 Lakh) with share of less than 9% in such loans. However the same rich borrowers have just 27% share compared to 60% share of poor borrowers when the rate of interest on loans exceeds 20% per annum. How we could call it a fair regulation by Reserve Bank of India (RBI) if Scheduled Commercial Banks (SCBs) are allowed to distribute loans in such discriminatory manner?*"[4]

Moreover, Pramanik (2006) also indicates that many of the depositors belong to low income or middle classes while the credit benefits the upper classes. This situation disseminates the uneven distribution of wealth and income moving away from the Islamic principles of economic and social justice. Therefore, in recent years, microfinance institutions (MFIs) have been facing much criticism due to their practice of charging comparatively high rates of interest when lending money to the poor (which may be as high as 70–100% per annum) (Sandberg, 2012).

Accordingly, Sir Josiah Stamp (President of the Bank of England in the 1920s, the second richest man in Britain) explained about the cruelty of conventional banking system in the following words.

> *"Banking was conceived in iniquity and was born in sin. The Bankers own the earth. Take it away from them, but leave them the power to create deposits, and with the flick of the pen they will create enough deposits to buy it all back again. However, take it away from them, and all the great fortunes like mine disappear, and they ought to disappear, for this would be a happier and better world to live in. But, if you wish to remain the slaves of Bankers and pay the cost of your own slavery, let them continue to create deposits."*[5]

More interestingly, Frederick Soddy, M.A (Nobel Prize Winner, 1921) also emphasized that sincere system is the only alternative to get rid of debt banking system.

"*There is nothing left now for us but to get ever deeper and deeper into debt to the banking system in order to provide the increasing amounts of money the nation requires for its expansion and growth. An honest money system is the only alternative*". [6]

Thus, it would be appropriate to develop the inclusive financial systems according to the Shariah and most certainly requires integration of microfinance with Islamic finance. It can be said without a doubt that supporting the poor is a core principle of Islam. Ahmed (2002) stated that Islamic microfinance institution is a good alternative of conventional microfinance as it can cater to the needs of the poor. Meera & Abdul Razak (2005) also argued that equity contracts such as Musharakah Mutanaqisah are more beneficial then debt based contracts. It promotes justice and fairness in contrast to the conventional loan. This is because it does not burden low income people. They further described that profit-sharing equity-based contracts can make the economy more stable by promoting positive partnership instead of negative indebtedness. So we can say that debt has many negative implications on our society and therefore should not be encouraged.

Many studies have been conducted to know the perception of customers towards Islamic banking (Dusuki & Abdullah, 2007; Haron et al., 1994; Tahir & Ismail, 2005) but the perceptions of micro-entrepreneurs and petty traders towards Islamic and conventional microfinance have not been much examined so far. Recently Hussain & Yaqub (2010) conducted a study in Bahawalpur, Pakistan which investigates the motivations, perceived success factors, and challenges for the micro-entrepreneurs. They concluded that lack of access to financial capital, economic and political instability are the major problems.

Based on the foregoing literature, it can be argued that there is a great possibility of Islamic microfinance institutions that can cater to the needs of the poor and Islamic microfinance institutions as a good alternative of conventional microfinance. Hence, there is no considerable development in Islamic microfinance research based on the perception and patronage studies of the key players in the market.

3. Data and Methodology

The population for this study includes the micro-entrepreneurs and petty traders in Pakistan from which the sample has been selected. Since both are involved in small-scale trading, therefore, we are merging them into one group/category that has the same importance and meaning of their opinions. Furthermore, determining an adequate sample size is a crucial decision. Stevens (1996) believed that there should be differences between 5 and 10 observations per item for any analysis that employs principle component analysis or factor analysis. According to Hair et al. (1998), the total sample size required for factor analysis should not be fewer than 50 observations, and preferably the sample size should be 100 or larger. However, Sekaran (2003) suggested that sample sizes larger than 30 and less than 500 were appropriate for most research. Thus, in this study 270 questionnaires were distributed in three major cities (Rawalpindi, Lahore, Peshawar) of Pakistan by a convenience sampling.

To complement the method adopted for this study, a survey instrument was used. According to Dooley (2001, p. 118), a "survey collects data from people by questionnaire." In this study, the survey instrument was a questionnaire that was designed to collect information from the respondents so as to make the respondents' views and opinions known. This study followed the pattern of a quantitative research. The quantitative research method is used to provide a more holistic picture of the subject matter including the target audience and the effectiveness of the program itself (Weinreich, 1996). This approach was best suited with the research purpose and research questions of the current study. Considering the fact that this study was quantitative based, the questionnaires used in this research were largely closed-ended questions with minor explanations required.

4. Results and Discussion

4.1. Demography

Two hundred and seventy questionnaires were distributed equally to micro-entrepreneurs and petty traders in three major cities of Pakistan, 90 questionnaires for each city. However, only 210 questionnaires were received; indicating a response rate of 78.0 percent. Around 150 of these 210 completed questionnaires were analysed.

Table 1. Profile of Respondents

Demographic variables	Category	Frequency	Percentage
Gender	Male	122	81.0
	Female	28	19.0
Marital Status	Single	49	32.7
	Married	99	66.0
	Divorced	1	0.7
	Widow	1	0.7
Age	Below 20	7	4.7
	20 – 30	39	26.0
	31 – 40	68	45.3
	41 – 50	30	20.0
	More than 50	6	4.0
Religion	Islam	148	98.6
	Others	2	1.4
Ethnic background	Pakistani	142	94.6
	Kashmiri	6	4.0
	Others	2	1.3
Current qualification	Master	1	1.0
	Bachelor	48	31.6
	Matriculation	58	38.8
	Primary	14	9.2
	Certificate/Diploma	14	9.2
	Others	15	10.2
Working experience	Less than 1 year	6	4.0
	1- 5 years	55	36.4
	6 - 10 years	67	44.4
	11 - 20 years	13	9.1
	Above 20 years	9	6.1
Usual working hours	less than 8 hours	23	15.0
	8 to 10 hours	55	37.0
	More than 10 hours	72	48.0
Sleeping resting time	Less than 6 hours	67	44.4
	7 to 8 hours	80	53.5
	More than 8 hours	3	2.0
Monthly income (for single) in Pakistan currency	RS9000 - RS20000	90	60.0
	RS20001 - RS40000	38	25.0
	RS40001 –RS60000	13	9.0
	RS60001-and above	9	6.0

Table 1 summarises the demographic information about the respondents. As shown in Table 1, expectedly, the number of male clients is overwhelming large (81.0 percent) relative to the number of female clients (19 percent). This is because, traditionally, the big or small business industry of Pakistan has always been dominated by male. Unlike other countries such as, Indonesia and Malaysia, females in some parts of Pakistan suffer from moral or religious prejudices. The result of the survey shows that most micro-entrepreneurs and petty traders are married while nearly one third respondents are single.

Most of the respondents 45.3 % are in between 31-40 age groups while 26 % of the respondents aged between 20-30 years. Consequently, the opinions expressed in the survey were mainly from the young aged respondents. This also indicates a relatively young people are doing good job of managing their businesses and taking responsibilities at early age. As Pramanik et al., (2008) observed that the middle age was considered the best period of one’s life and this dynamic age group could make decisions for even risky ventures for positively contributing to the family income.

By far the religious faith of the respondents is overwhelmingly predominated by Islam with only 1.4 percent being non-Muslims. The findings of Table 1 also indicate that majority of the respondents (94.6 percent) are indigenous Pakistani with Islam as the basic faith. Thus, the migrants from Kashmir constitute the very negligible percentage of total respondents. It might suggest that the religious belief other than Islam has no implications for our findings on perception.

In terms of the respondents' educational level, only 1% of the respondents holding postgraduate degree, 31.6% had bachelor degree, majority of them 38.8% had matriculation while 9.2% of them had a diploma/primary education. This indicates that majority of the respondents had some form of tertiary education. Moreover, majority of them 44.4% had more than 6-10 years of working experience with different nature of businesses. Most of them 48% used to work more than 10 hours a day. It seems that majority of micro-entrepreneurs and petty traders work hard to sustain their lives with less than 6 hours of sleeping/resting time. Pertaining to their monthly income, most of them (60%) earned a monthly income between RS9000 - RS20000/- (US$97 - US$217). The second most frequent level of income was RS20001 - RS40000/- (US$217 - US$434), which composed of 25% of the respondents. Only 6% of the respondents can be classified as better income earners by earning more than RS60000/- (US$652).

4.2. Awareness of Respondents upon Conventional and Islamic Microfinance

The study intends to explore the awareness on conventional and Islamic microfinance among the respondents using the frequency tests. The opinion of the respondents was sought with respect to their level of education and associations with family and friends. The results as presented in Table 2 show that majority of the respondents have a basic understanding of conventional microfinance and very few replied that they do not have basic understanding whereas 12.8 percent of respondents were uncertain.

Table 2. Level of understanding on conventional microfinance

	Items	Percentage (%)
I have a basic understanding of conventional microfinance	Strongly disagree	2.0
	Disagree	7.4
	Uncertain	12.8
	Agree	71.6
	Strongly agree	6.1
	Total	100

The finding as evidenced in Table 3 below also shows a little more than half of the clients have a basic understanding of Islamic microfinance while 18.8 percent said that they do not have any basic understanding. Furthermore, less than one fourth of the respondents were uncertain. The opinion of the respondents was also sought with respect to their level of education (Islamic studies) and associations with family and friends.

Table 3. Level of understanding on Islamic microfinance

	Items	Percentage (%)
I have a basic understanding of Islamic microfinance	Strongly disagree	7.4
	Disagree	11.4
	Uncertain	23.5
	Agree	48.3
	Strongly agree	9.4
	Total	100

Thus, the most consistent answer from the respondents is that they are familiar about the conventional and Islamic microfinance. Although, Islamic microfinance is a new concept in banking but somehow majority of respondents have a basic understanding with these concepts. Few studies also have analysed the awareness level of banks' customers and general public towards the Islamic banking system in Pakistan. For example, Khattak and Kashif-Ur-Rehman (2010) used a sample of 156 respondents associated with Islamic banks from different cities of Pakistan. They tried to get the customer satisfaction and awareness level towards Islamic banking system. They indicated that customers were aware about the general products such as, current accounts, time deposit account but most of them were unaware about the different Islamic financial products such as, Murabaha, Ijara et cetera.

Azeemi et al., (2004) revealed that the overall awareness level of the general public towards Shari'ah based financial system was not high. A study by Gerrard and Cunningham (1997) that was conducted in Singapore concluded that most of the Muslims were aware of the fundamental concepts of Islamic finance but they were not aware of the details of specific Islamic financial products such as, Murabaha, Ijara, and Musharakah financing.

Conversely, Table 2 and 3 also suggest that some of the respondents cannot distinguish the basic difference between Islamic and non-Islamic finance. These findings support the views of a recent study by Manzoor and Amanaullah (2010). They used a sample of 100 respondents (50 users of Islamic banks and 50 of conventional banks) in the city of Karachi, Pakistan. They revealed that about 41 percent of the respondents consider themselves uninformed regarding their understanding of the fundamentals of Shari'ah-based financial system while 42 percent admit their level of understanding on the difference between conventional and Shari'ah-based financial system.

4.3. Respondents' Perception upon Conventional Microfinance

The study also intends to explore the general perception on conventional microfinance using the frequency tests. The results as presented in Table 4 show that majority of the respondents state that conventional microfinance cannot help the needy because the primary mission of microfinance is to make profit only by exploiting the needs of the needy. Subsequently, as shown in Table 4 majority of the respondents (88.5 percent) were discontented to agree with the statement that "the establishment of conventional microfinance is in accordance with the well-being of the society (the poor)". Most of them believe that conventional microfinance cannot function without the interest because it is in the blood of those people who concentrate in making profits only. As such, the conventional finance is least concerned for improving the living standard of the poor. The respondents consider that factors like, fixed high interest rates are not consistent with improving the well-being of the society. Hence, this negative perception on conventional microfinance is indicative of a positive future of Islamic microfinance in Pakistan.

Table 4. Respondents' Perception on Conventional Microfinance

Perception	Disagree (%)	Uncertain (%)	Agree (%)	Mean	Std. Dev.
1- Conventional microfinance can help the needy and is simpler than Islamic microfinance	64.5	27.5	8.1	2.15	0.950
2-The establishment of conventional microfinance is in accordance with the well-being of the society (poor/needy)	88.5	10.8	0.7	1.72	0.681
3-Microfinance cannot function without the rate of interest	26.8	47.7	25.5	2.95	0.899
4- It is easier to obtain financing without collateral in conventional microfinance	70.5	27.5	2	1.94	0.879

This above finding is consistent with prior studies such as, Akhtar et al., (2009) who mentioned that in Muslim world, the conventional microfinance could not be productive because of the Islamic social principles and that most people prefer Islamic microfinance over conventional microfinance. Hassan (2010) and Siddiqi (2008) also indicate the negative point of the conventional microfinance is the fixed high interest rate given that usury (riba) is prohibited in Islam. As such the clergy in the rural areas and conservative Muslim societies exhibit resistance to conventional micro-financing, and for same reason the Muslim clients prefer Islamic microfinance. As an effective alternative to conventional micro financing, Islamic micro-financing institutions are growing in different countries as well (Hassan, 2010). Furthermore, Siddiqi (2008) mentioned about the Islamic society of Pakistan having an Islamic mind set, therefore, they are not in favour of getting a micro-loan from the conventional banks.

4.4. Respondents' Perception upon Islamic Microfinance

The study also aims to examine respondents' perception about the Islamic microfinance by using the descriptive tests. As evidently shown in the Table 5, the majority (75 percent) of the respondents agree with the statement that Islamic microfinance can help the needy and is better than conventional microfinance. According to them, the concept of Islamic microfinance embraces the principles of Islam.

Table 5. Respondents Perception on Islamic microfinance

Perception	Disagree (%)	Uncertain (%)	Agree (%)	Mean	Std. Dev.
1-Islamic microfinance can help the needy and is better than conventional microfinance	1.4	23.6	75.0	3.91	0.709
2-In Islamic microfinance, the extra charge on initial capital (borrowed) is lower than that of the conventional microfinance	6.7	59.1	34.2	3.32	0.689
3- I can obtain financing without worrying about usury (riba)	18.2	61.7	20.2	3.01	0.923
4-I can obtain Islamic microfinance without collateral, such as, witness/ guarantor	53.1	41.6	5.4	2.29	0.910
5-Islamic banks encourage lower income micro-entrepreneurs by offering Islamic microfinance without collateral such as witness/guarantor	80.4	13.3	6.3	2.56	0.918
6-Govt of Pakistan supports the establishment of Islamic microfinance to lower income micro-entrepreneurs	83.1	16.9	-----	1.72	0.641
7-The most motivational factor of Islamic microfinance is religion	4.7	22.8	72.5	3.96	0.884
8-The most motivational factor of Islamic microfinance is the nature of its products	9.4	40.9	49.7	3.54	0.874

Furthermore, Table 5 also shows that the most (59 percent) of the respondents are uncertain about the extra charge on initial Islamic financing whether it is lower or higher as compared to conventional microfinance. This is because overwhelming majority of the respondents (98.6 percent), as shown in Table 6, is not found to be involved in any financing facility from either Islamic or conventional banks. However, about one third of the respondents (Table 5) are of the opinion that the charge on initial financing (borrowing) is lower in Islamic finance as compared to conventional finance. They might have given this opinion based on their associations with friends and relatives who have taken financing facility from Islamic banks.

Table 6. Respondents' Involvement Financing Facility

		Frequency	Percentage
Involvement in any financing facility	Yes	2	1.4
	No	148	98.6
	Total	150	100.0

The finding as evidence in Table 5, about less than two-thirds of the respondents expressed the great concerns that it seems difficult to get financing without interest rates and collateral even from the Islamic banks. Thus, the most consistent answer from the respondents is that the mechanism of lending with respect to charging interest in Islamic finance and dealings with the low-income people might be the same as that of conventional microfinance.

However, the results of Table 5 also revealed that the most important motivational factor of Islamic microfinance to micro-entrepreneurs and petty traders is religion (mean=3.96).This is followed by the nature of products and services (mean=3.54). Respondents were more likely to state that their preferred choice to available micro-financing would not only be based on religious reasons but some other reasons that motivate them to adopt Islamic banking system for Islamic microfinance such as, quality of products and services in terms of low transaction costs, speed, easy excess, staff's competency and information. This leads to propose that micro-entrepreneurs and petty traders are significantly eager to do business with Islamic microfinance as a preferred choice than conventional microfinance.

5. Conclusion

The main objective of this paper is to examine the perceptions of petty traders and micro-entrepreneurs in Pakistan with regard to their knowledge and awareness about Islamic and conventional microfinance, general perception on Islamic microfinance and the most attractive factor of Islamic microfinance to micro-entrepreneurs. The empirical findings show that majority of the respondents have a basic understanding of Islamic microfinance and majority of the respondents agreed that Islamic microfinance can help the needy and is better than conventional microfinance as Ahmed (2002) also observed that there is a great potentiality of Islamic microfinance institutions (IMFIs) that can cater for the needs of the poor.

Furthermore, the most consistent answer with major concerns from the respondents is that they cannot obtain financing without collateral from Islamic banks. The majority of respondents revealed that Islamic banks do not differ from conventional banks in dealings and mostly considering them, less privileged people. According to Abdouli (1991) that Islamic banking institutions could lose their importance if they keep the tangibility of assets, as a requisite to access to finance. He further refined that granting of credit to an educated, yet financially poor person could even be more beneficial on both social justice and long run growth. On the other hand, Islam also encourages the acquisition of skills as "The Shari'ah has all the praise for a skilful and efficient worker."7

Future studies may explore the influence of the Central Bank of Pakistan's guidelines towards Islamic microfinance and make use of the existing policies and measurement in exploring a new phenomenon. From the findings of the study, it is recommended that Islamic banks and microfinance should constantly encourage micro-entrepreneurs and evaluate the needs and concerns that can contribute in developing their levels of self-confidence and self-esteem. Furthermore, Islamic banks need to promote their products and services with proper policies and guidelines as mostly people wanted to shift from conventional banking to Islamic banking but the level of their knowledge on Islamic finance methods is generally low. So there is a need to educate the Muslim community by developing a good information system through good visuals and professionally presented seminars, banners and continuously sessions with business community.

If the Islamic banks aim to target micro-entrepreneurs, they need to take advantage of two key findings from this survey:

1. Micro-entrepreneurs view Islamic microfinance as a preferred choice and better than traditional interest-based loans
2. Micro-enterprises are an easier market to win as they had a strong faith that Religion is the primary motivation for them dealings with Islamic finance

In addition, the Government of Pakistan must take initiative to monitor Islamic microfinance system which would assist the lower income micro-entrepreneurs, resulting in an improvement in income earnings and expenditure leading them to enjoy a higher living-standard.

Endnotes

[1]Akhtar Hameed Khan was the founder of two internationally acclaimed community projects:
1) Orangi Pilot Project
2) Comilla Rural Academy of East Pakistan (now Bangladesh). http://akhtar-hameed-khan.8m.com/#intro

[2]Addressing to the 4th International conference on Islamic Banking and Takaful, this was organised by Alhuda Centre of Islamic Banking and Economics Lahore, Pakistan on November 03, 2010. http://microfinanceafrica.net/tag/islamic-microfinance/page/2/

[3]Islamic Aid has been working on Islamic microfinance for more than 10 years helping poor people to increase their incomes and make
their futures more secure, without compromising their religious beliefs. http://www.islamicaid.com/index.php/ourwork/what-we do/islamic-microfinance

[4]http://www.articlesbase.com/banking-articles/banks-are-discriminating-among-the-rich-and-the-poor-borrowers-4285303.html

[5]http://inquiringminds.cc/sir-josiah-stamp-president-of-the-bank-of-england-in-the-1920s-the-second-richest-man-in-britain

[6]The Evil of Usury: http://www.biblebelievers.org.au/usury.htm

[7]M. Omar,Mustafa. (2010) unpublished doctoral thesis," The objectives and performance measures of Islamic banking based on Maqasid al-Shariah framework. (p.77)

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