JMIF
Journal of Management and Islamic Finance
Volume 4, Number 1, June 2024, pp. 1 – 20
DOI: https://doi.org/10.22515/jmif.v4i1.9341

THE DYNAMICS OF ISLAMIC MICROFINANCE AWARENESS AND FINANCIAL LITERACY

Safia Nosheen
UMT-University of Management and Technology
safia.nosheen@umt.edu.pk

Javed Iqbal
UMT-University of Management and Technology
f2023213001@umt.edu.pk

Dr. Farah Yasser
UMT-University of Management and Technology
farah.yasser@umt.edu.pk

M. Kashif Ali
UMT-University of Management and Technology
m.kashifali@uet.edu.pk

Article Info

Article History

Received:
10 June 2024

Accepted:
26 June 2024

Published:
30 June 2024

Abstract

This study seeks to bridge the existing gap in the literature, offering a comprehensive analysis of the relationships among Islamic Microfinance Awareness, Financial Literacy, Trust in Financial Institutions, and Customer Access to Islamic Microfinance Products. Small enterprises have been targeted as a sample of Lahore city, Pakistan's second-largest city in terms of population and economic significance. The data is gathered through questionnaires and 256 responses collected from employees across diverse organizations, reinforcing the study's credibility. Partial Least Squares Structural Equation Modelling (PLS-SEM) used to achieve research goals. The study's results align with all the specified hypotheses, confirming the proposed relationships and shedding light on the interconnected dynamics between Islamic Microfinance Awareness, Financial Literacy, Trust in Financial Institutions, and Customer Access to Islamic Microfinance Products. This study investigates the lesser-known aspect of Islamic Microfinance Awareness, providing insights into its influence on consumer access and trust. The practical implications are outlined, proposing that policymakers and financial institutions implement targeted awareness campaigns and financial education initiatives. The research culminates in valuable recommendations for relevant parties, emphasizing the significance of establishing the confidence to promote increased consumer involvement with Islamic Microfinance offerings.

Keywords: *Customer Access, Financial Literacy, Islamic Microfinance Awareness, Islamic Microfinance Products, Trust, Financial Institution.*

INTRODUCTION

The significance of financial inclusion, especially in the context of Islamic microfinance, has widely been acknowledged as a crucial means of promoting economic empowerment and narrowing socio-economic disparities (Khan, 2022). Despite the growing emphasis on financial inclusion, we lack substantial insights into the complex dynamics that determine the availability/ accessibility of Islamic Microfinance products to consumers. This investigation mitigates this critical gap by identifying the relationships between Islamic Microfinance Awareness, Financial Literacy, Trust in Financial Institutions, and Customer Access to Islamic Microfinance Products.

The concept of Islamic Microfinance, involving a deep appreciation of its ethical principles as well as its financial products, is expected to have a pivotal influence on individuals' trust in financial institutions (Khan, 2022). The degree of financial literacy is simultaneously expected to affect trust levels, as well as the extent to which individuals actively utilise Islamic Microfinance products (Purwanto et al., 2022). This study now aims to untangle the complex web linking these variables to provide a comprehensive understanding of the mutual relationships between them.

This research unites insights from behavioural economics and the layered, ethical dimensions of Islamic finance Billah, (2021) in building on existing literature which has already demonstrated the positive relationship between financial literacy and trust in financial institutions. It adds an examination of microfinance within the Islamic tradition, where adherence to moral norms is inseparable from all financial products, and how this literacy affects consumer access to such customised financial services.

The objectives of this research are threefold: first, to scrutinize the relationship between Islamic Microfinance Awareness and Trust in Financial Institutions; second, to ascertain Financial Literacy's effect on Trust in Financial Institutions and Customer Access to Islamic Microfinance Products; and third, to explore the relationship between Islamic Microfinance Awareness and Customer Access to Islamic Microfinance Products.

To fulfil study goals, the researcher employs a methodology that initiates measures such as composite reliability, factor loadings, and path analysis (Lai, 2021; Shrestha, 2021). The following sections offer a step-by-step account of our research method, the reliability and validity assessments of our constructs, and the empirical findings that offer the finer details on the complex associations within our model. This research contributes to the Theory of Social Capital by providing an insight into the interconnectedness between Islamic Microfinance Awareness, Financial Literacy and Customer Access. In doing so, this research provides significant implications for policy makers, financial institutions, and researcher by helping them to understand the drivers behind Islamic Microfinance and how it is promoting financial inclusion.

LITERATURE REVIEW

Theory of Social Capital

The Theory of Social Capital provides a framework that nicely captures many elements of Islamic Microfinance. The social connections, intrinsic knowledge and shared common values, derived from sociology and linked to the fundamental economic concept of a well-organized community, (Gannon & Roberts, 2020). The Theory of Social Capital illuminates how the community is connected with key components of Islamic microfinance (Sagiyeva & Shirazi, 2021). The community's collective understanding of Islamic microfinance enables it to trust that financial institutions that use the Islamic financial framework makes investment choices that abide by acceptable Islamic standards (Wajdi Dusuki, 2008). Financial literacy serves as a form of Social Capital, as it redirects savvy individuals through the jungle of financial institutions, so that one can access existing Islamic Microfinance products (Rafiki et al., 2023). The Theory emphasizes that trust is the foundation of social networks. Trust mediates customer access and their awareness. Conceptualizing trust as an antecedent, explains how the social capital of the community advances from being merely aware of financial products, to becoming enduring relationships of trust, which underscores that its members have the resources to access more advanced financial product. The Theory of Social Capital nest sophisticated together, of financial literacy, know, trust, and customer access to a financial product within a community (Musavengane & Kloppers, 2020). This offers up a more sophisticated analysis of Islamic microfinance.

Financial inclusion, an important ingredient of economic development, has undergone significant transformations in the recent past, where the notion of Islamic Microfinance has emerged as an important tool to forge inclusive financial systems (Kanwal et al., 2023). In the world's pursuit of sound financial health Islamic Microfinance has garnered critical attention for its unique ethical architecture that binds its financial operations into Islamic norms including Mudarabah, Musharakah, Huqur-al-Askia, Shak, Kafeel jo Imdad, Avoidance of Interest (Riba) and Compliance with Islamic Sharia compliant standards (Hayat & Malik, 2014)(Ali, 2011).

The drive to conduct this research comes from the realization that despite the advent and remarkable growth of Islamic Microfinance, there seems a notable gap from theorizing the fundamental elements which make the accessibility and utilization of Islamic Microfinance products (Maulana et al., 2018). And by 'theorizing' we mean that no one seems to have delved deeper into the complex co-relational relationships between Islamic Microfinance Awareness

(IMFA), Financial Literacy (FL), Trust in Financial Institutions (TFI), and Customer Access to Islamic MicroFinance Products (CAIMFP).

Islamic Microfinance, grounded in ethical considerations, requires a more sophisticated understanding of its underpinnings by individuals to engage effectively with financial institutions operating under its aegis (Farrar & Uddin, 2020). This understanding referred to as Islamic Microfinance Awareness (Farrar & Uddin, 2020). It is posited here that Islamic Microfinance Awareness influences the trust in such institutions and the active utilization of tailored financial products.

The present study, therefore, seeks to add on to the broader literatures on financial literacy and trust within the more specific context of Islamic Microfinance. As indicated, while existing literatures have shed light on the positive association between financial literacy and trust in financial institutions, the unique nature of Islamic finance as an ethical form of finance requires a more specialized investigation into how this impacts trust with concomitant access to Islamic Microfinance products.

By venturing into this unchartered crossroads, this study seeks to plug this extant gap in the literature by providing a thorough understanding of the relationships amongst Islamic Microfinance Awareness, Financial Literacy, Trust in Financial Institutions and Customer Access to Islamic Microfinance Products. In doing so, we hope to transcend mere academic relevance, providing insights that are of value to policymakers, financial institutions and scholars who espouse the endeavor of Islamic Microfinance for socio-economic development and financial inclusion.

Islamic Microfinance Awareness and Trust in Financial Institutions.

Zahid et al., (2024) examined how financial literacy is linked with trust in financial institutions using the behavioral economics framework whereby they show that individuals with more knowledge of various financial products are more likely to place their trust in the financial institutions that offer these products because they are more likely to view the financial institutions as more honest, dependable, and ethically pure (Bayou et al., 2011).

Maulana et al., (2018) have also extended our understanding into the ethical inference of financial transactions in The Islamic Financial framework. In another study they emphasize that to enhance trust we also have to understand the moral implications of Islamic Microfinance. For Islamic finance, individuals with knowledge of life’s fundamental moral aspects as critical will be more likely to place their trust in the financial institutions that operate within Islamic finance (Hassan et al., 2013). The empirical work of Ahmad & Rusdianto, (2020) gives a further weight to this as they demonstrate that Islamic microfinance literacy, either examined through real data or experimental settings, individuals with more understanding of Islamic microfinance products and its principles are more likely to place their trust in the institutions that offer the products.

The existing literature seems to indicate an intimate relationship between awareness of the Islamic microfinance and trust in financial institutions. In fact, in relation with the Islamic finance industry, the degree of understanding and awareness of the moral dimension of Islamic Microfinance is arguably a significant variable in the trend to participants expressing trust in the financial institutions working in the Islamic finance industry. This is the reason why we went for a more exhaustive enquiry about this trend under the purview of the current study.

H1: Islamic Microfinance Awareness linkages a significant positive affiliation with Trust in Financial Institutions

Financial Literacy and Trust in Financial Institutions.

Lusardi and Mitchell (2014) report a ground breaking study that highlights the universal importance of financial literacy for determining the trust individuals place in financial institutions. Their findings suggest that those with higher levels of financial literacy tend to be better informed in making financial decisions (Lusardi & Mitchell, 2014). Such informed decision-making further enhances the reputation of financial institutions as trustworthy partners (Caprio & Honohan, 2001). Financial literacy therefore becomes a mechanism enabling individuals navigate financial markets more confidently and to rely more heavily on the institutions with which they interact (Zhang, 2023). The favorable relationship between trust in financial institutions and financial literacy is strengthened because people who have knowledge of financial matters are better able to determine the reliability and integrity of financial institutions (Atkinson & Messy, 2012), thus reinforcing their trust in and confidence with financial fields.

(Lusardi & Mitchell, 2013, 2014) contribute useful cross-national insights into the general relationship between trust in financial institutions and financial literacy by conducting cross-national inquiries They find that those with high financial literacy regard financial institutions more favorably, irrespective of their cultural origins (Kovács & Terták, 2019). This universal pattern underscores the argument that financial literacy lies at the basis of trust, regardless of cultural idiosyncrasies. The relationship between financial literacy and trust in financial institutions is shown in a recent study by (Goyal & Kumar, 2021). They demonstrate that individuals more familiar with financial matters are better at making decisions, which generate a more positive attitude toward financial institutions and in turn lead to a higher level of trust in the local financial institutions. The literature which has been reviewed admits that there is an overwhelming body of research that strongly suggest that scores on financial literacy have a significant association with trust in financial institution (Kersting et al., 2015) and the capacity to make informed financial decisions in different cultural and contextual set seem to be related with trust in financial institution and positive attitude (Naveed et al., 2021). It is on these bases that we try to link trust in financial institutions and financial literacy for our research.

H2: Financial Literacy linkages a significant positive affiliation with Trust in Financial Institutions

Islamic Microfinance Awareness and Customer Access to Islamic Microfinance Products.

In the wider context of financial inclusion, the relationship between Muslim customers' ability to access Islamic Microfinance products and their understanding of Islamic Microfinance – particularly when one considers the unique features of Islamic Microfinance (G. Nabi et al., 2017) – is intrinsically associated with contemporary literature on financial inclusion which highlights how awareness is paramount in enabling participants to acquire financial products (Ozili, 2021). In realizing and harnessing benefits from a broad range of financial services, knowledge of such products has to be acquired by individuals (Allen & Gale, 1999). It therefore becomes important to extensively examine the underlying concept – of the importance of awareness in the context of Islamic microfinance.

Support is found in the work of Akbar & Nabiha, (2019) on Islamic microfinance. They found a positive relationship between better understanding of the principles and benefits of Islamic Microfinance and participation in Islamic Microfinance projects. This relationship is a sign of the higher utilization and benefit from financial products and services of Islamic Microfinance for those with higher understanding (Albaity & Rahman, 2019). This reinvigorates Rhyne, (2001) who noted that the importance of awareness efforts on a narrow bank. Research conducted to aid marginalized people indicated that awareness campaigns were one of several components that would broaden the accessibility of specialized financial solutions for clients. Gallardo et al., (2006) However in the case of Islamic Microfinance which may differ in both product offering and guiding principles from those of conventional/western financial institutions such focused awareness efforts become all the more necessary to not only bridge the information gap, but also improve client access.

The literature indicates a strong correlation between access to Islamic microfinance products for clients and Islamic microfinance awareness (Yakubu et al., 2021). Given the seminal role of awareness in enhancing financial inclusion as well as the strong empirical backing for such products Maulana et al., (2018) that is, the notion that improving awareness could be a good strategy to expand access to such products, seems logical. It forms the basis for additional examination and assessment during our academic inquiry.

H3: Islamic Microfinance Awareness linkages a significant positive affiliation with Customer Access Islamic Microfinance Product

Financial Literacy and Customer Access to Islamic Microfinance Products.

The hypothesis suggests a strong relationship between Financial Literacy and Consumer Access to Islamic microfinance products (Albaity & Rahman, 2019). A substantial work on Islamic microfinance and general studies on financial literacy and access have added to the literature in this field (Saifurrahman & Kassim, 2021) and established the basic consensus that financial literacy and financial access are positively correlated. A strong positive relationship exists between higher financial literacy and increased abilities to manage different financial products and services (Widdowson & Hailwood, 2007). Therefore, those who are highly financially knowledgeable will have greater abilities to use and to use effectively different array of financial products and services that are available to them (Braunstein & Welch, 2002).

This study by Shinkafi & Ali, (2018) that explains that a good level of awareness and expertise in Islamic finance significantly increases how effectively customers can use and tap into various Islamic Microfinance products. The study findings suggest that someone with high financial know-how about Islamic finance can identify and use the principal features inherent in the different Islamic Microfinance Products. So, in Islamic finance financial literacy involves a deep understanding of how such processes as profit-and-loss-sharing work, avoiding any form of interests and ethical and Sharia-compliant financial standards (Safieddine, 2009). Their application allows people to be able to make meaningful choices among the Islamic Microfinance solutions available, and therefore effectively avail themselves of a suitably tailored Islamic Microfinance solution when they need one (Obaidullah & Khan, 2011). The ready identification and use of the principal features of Islamic Microfinance Products needs someone with financial literacy in Islamic finance.

The literature strongly supports a significant association between clients' financial literacy and ability to access Islamic microfinance products. Adding more evidence to the emerging field of Islamic Microfinance is contributing to the body of knowledge that suggests financial literacy is strongly associated with ability to access financial services. An increased financial literacy among the consumer population could greatly improve the acquisition and the use of Islamic Microfinance products. A firm understanding of this topic is vital for a deeper exploration in our research.

H4: Financial Literacy linkages a significant positive affiliation with Customer Access Islamic Microfinance Product

H5: trust in financial institution linkages a significant positive affiliation with Customer Access Islamic Microfinance Product

Mediating Role of Trust in Financial Institutions

The hypothesis shows Customer access to Islamic microfinance products has mediated the relationship of Islamic microfinance with Customer awareness of Islamic microfinance through Trust in financial Institutions (Tabrani et al., 2018). This concept is well established on Islamic microfinance and trust in financial institutions where huge literature is available and there are some targeted research in this connection as well (Obaidullah & Khan, 2011). Literature has shown that trust plays a rather significant role in the formation of behavior intent to use of financial products and, supports the combined role of trust in explaining how an individual tends to use the service by a financial institution (Vivek et al., 2012; Zhou et al., 2018). Financial institutions play crucial role in building stakeholder's confidence by providing services beyond the simple transaction of principal (Cuevas & Fischer, 2006). For example, by hiring reliable personnel, by fostering a reputation for integrity and honesty, and by demonstrating the commitment to uphold ethical standards. Trust is very important for this system, and it creates changed motivation and empowerment so that the individuals are able to actively participate in these financial institutions (Manzoor, 2011).There is extensive empirical evidence to support the assertion that client confidence in financial institutions is reliably and significantly associated with a greater understanding of Islamic microfinance and, subsequently, client access to Islamic microfinance products (Shinkafi & Ali, 2018). Hence, client trust in financial institutions is found to have a strong impact on clients' financial decision-making and behaviors.

An essential dimension of this trust is situated in clients' understanding and awareness of these financial products and services and operates as an essential moderator within this construct (Chiu & Iris, 2016). This signals the possibility that having financial knowledge may indeed not be sufficient to change financial behaviors, thus, highlighting the vital nature of trust in negotiating the translation of abstract cognitions into concrete financial decision-making. Rohman et al., (2021) subsequent to an empirical investigation of Islamic Microfinance offer support to the contention that trust on the part of clients is critical in enabling client access to Islamic Microfinance products, a claim that has its theoretical provenance in (Wajdi Dusuki, 2008) and is corroborated by empirical evidence that clients' trust in financial institutions impacts their participation in and utilization of Islamic microfinance programs. An awareness of Islamic microfinance thus indeed affects participation in and utilization of Islamic microfinance products and services, where an essential dimension of an awareness about these products and services, in turn is found to be confidence in financial institutions.

It is, therefore, evidence-based that client access to Islamic microfinance products, which is found to be influenced by confidence in financial institutions (Tamanni & Haji Besar, 2019), affects the understanding of Islamic microfinance. Trust is a critical aspect of financial enabling and operates as a mediator that redirect knowledge towards proper behaviors, and this study seeks to leverage both theoretical and empirical academic work on trust in Islamic microfinance to posit a theoretical and testable framework for understanding this mediation.

H6: Trust in Financial Institutions mediates the relationship between Islamic Microfinance Awareness and Customer Access to Islamic Microfinance Products.

H7: Trust in Financial Institutions mediates the relationship between finance literacy and Customer Access to Islamic Microfinance Products.

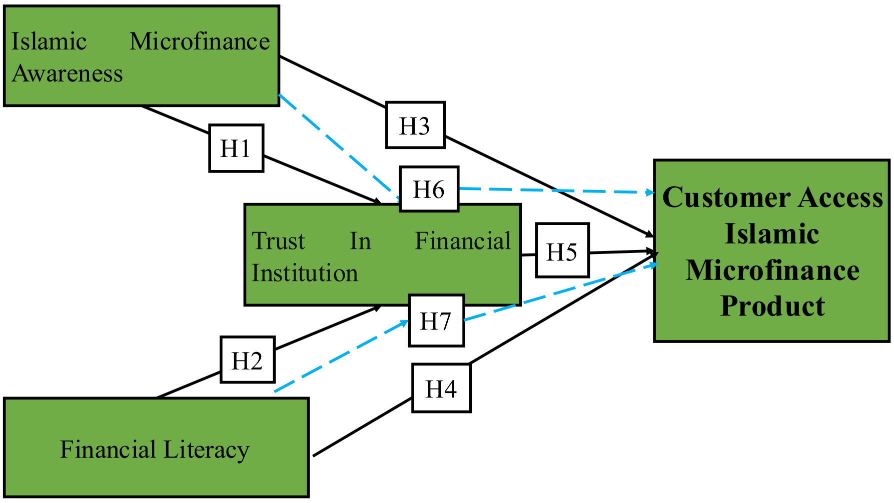

Figure 1: Conceptual Framework

METHODOLOGY

Data Collection

The research utilized a deliberate sample selection technique targeting Small businesses in Lahore, a significant economic hub. The choice of location aimed to ensure a representative sample due to Lahore's status as Pakistan's second-largest city in terms of population and economic significance. The method through which sample organizations were approached was through personal visits, questionnaires and briefings. Trust is established within the participants as you navigate trust in Islamic microfinance through rapport building and transparency with participants. The voluntary and confidential participation emphasis is critical as means to ensure integrity within the research process. 256 responses from multiple respondents from diverse organizations received.

Measures

All measurements in this study were gathered by using already established, widely accepted, dependable instruments that have been deemed valid and reliable. All variables were accessed using 5-point Likert scale. "Islamic Microfinance Awareness" was evaluated using six items from the work of (M. Nabi & Aima, 2012). "Financial Literacy" was accessed using seven items from the work of (Rahim et al., 2016). Similarly, "Trust in Financial Institutions" is accessed using 11 items, which included five items of "Affect-based trust in financial institutions" and six items of "Cognition-based trust in financial institutions" from the study (McAllister, 1995). Nonetheless, "Customer Islamic Microfinance Products" was evaluated by using 20 items, which included nine items of "Relevancy (Quality) of Islamic Micro Financial Products/Services," 5 items of "Accessibility of Islamic Micro Financial Services," 3 items of "Usage of Islamic micro–Financial Services," and three items of "Satisfaction with Islamic Financial Services" from the work of (Khamis, 2021).

Analysis

In order to achieve the research goals, the researcher utilized "Partial Least Squares Structural Equation Modelling" (PLS-SEM) method, which Hair et al., (2021) further developed after Gim & Ramayah, (2020) initially proposed. PLS-SEM was determined to be the most suitable method for this inquiry because of its ability to effectively manage scenarios involving small sample sizes, non-normal data distributions, formative assessments, and restricted sample sizes. Due to these characteristics, it is deemed the most suitable methodology for this research.

Measurement Model Assessment

Table 1 and Figure 2 display the research methods used to ascertain internal consistency, construct validity and convergent validity. To estimate reliability composite reliability was used over Cronbach's Alpha as recommended by Collier and colleagues. Study results for the Trust in Financial Institutions, Islamic Microfinance Awareness, Financial Literacy and Customer Access to Microfinance Products are presented in appended tables.

RESULT & DISCUSSION

The results showed robust internal consistency reliability. This was demonstrated with Cronbach's Alpha values from 0.877 to 0.943. These values showed high reliability for the measurement scales associated with each construct. In addition, the Composite Reliability (CR) values 0.908 to 0.949 further demonstrated the reliability of the measurement instruments. Further, the Average Variance Extracted (AVE) 0.497 to 0.665 values concluded convergent validity.

Table 1: Convergent Validity

Constructs	Indicators	Factor Loadings	Alpha	CR	AVE
Trust in Financial Institutions	ABT1	0.783	0.917	0.930	0.551
	ABT2	0.772			
	ABT3	0.833			
	ABT4	0.710			

Constructs	Indicators	Factor Loadings	Alpha	CR	AVE
	ABT5	0.619			
	CBT1	0.712			
	CBT2	0.777			
	CBT3	0.762			
	CBT4	0.805			
	CBT5	0.742			
	CBT6	0.616			
Islamic Microfinance Awareness	AIM1	0.719	0.943	0.908	0.623
	AIM2	0.730			
	AIM3	0.742			
	AIM4	0.725			
	AIM5	0.636			
Financial Literacy	FL1	0.644	0.914	0.932	0.665
	FL2	0.770			
	FL3	0.857			
	FL4	0.869			
	FL5	0.843			
	FL6	0.833			
	FL7	0.866			
Customer Access Islamic Microfinance Products	IMA1	0.825	0.877	0.949	**0.497**
	IMA2	0.858			
	IMA3	0.802			
	IMA4	0.859			
	IMA5	0.689			
	IMA6	0.683			
	QIM1	0.656			
	QIM2	0.693			
	QIM3	0.634			
	QIM4	0.699			
	QIM5	0.661			
	QIM6	0.674			
	QIM8	0.587			

Constructs	Indicators	Factor Loadings	Alpha	CR	AVE
	QIM9	0.735			
	SIM1	0.687			
	SIM2	0.787			
	SIM3	0.801			
	UIM1	0.628			
	UIM2	0.753			
	UIM3	0.798			

Table 2 shows the results of the discriminant validity test using Heterotrait-Monotrait (HTMT) ratios to assess four primary constructs: Financial Literacy (FL), Trust in Financial Institutions (IFI), Islamic Microfinance Awareness (IMA), and Customer Access to Islamic Microfinance Products (TFI). The HTMT ratios provide an indication as to whether pairs of constructs are likely to overlap or correlate. The HTMT ratio for FL vs. IFI is 0.814, a relatively high level that suggests Financial Literacy might not be distinct from Trust in Financial Institutions. The similar ratios of 0.777 for FL vs. IMA and 0.793 for FL vs. TFI raise similar concerns for overlap or correlation between Financial Literacy and Islamic Microfinance Awareness or Customer Access to Islamic Microfinance Products.

The HTMT ratios for IFI vs. IMA (0.877) and IFI vs. TFI (0.783) also exhibit higher values, implying possible shared variance between Trust in Financial Institutions and Islamic Microfinance Awareness and Customer Access to Islamic Microfinance Products. However, the HTMT ratio of 0.671 for IMA vs. TFI suggests comparatively better discriminant validity between Islamic Microfinance Awareness and Customer Access to Islamic Microfinance Products.

In essence, the HTMT ratios in Table 2 highlight potential issues with discriminant validity, particularly between Financial Literacy and the other constructs, as well as some overlap between Trust in Financial Institutions and the remaining constructs.

Table 2: Discriminant Validity (HTMT Ratio)

	FL	**IFI**	**IMA**	**TFI**
FL				
IFI	**0.814**			
IMA	**0.777**	0.877		
TFI	**0.793**	**0.783**	**0.671**	

Table 3 provides the results of the discriminant validity analysis using the Fornell-Larcker criterion. This method assesses the distinctiveness of constructs by comparing the square root of the average variance extracted (AVE) for each construct with the correlations with other constructs. Diagonal values in bold represent the square root of AVE for Financial Literacy (FL), Trust in Financial Institutions (IFI), Islamic Microfinance Awareness (IMA), and Customer Access to Islamic Microfinance Products (TFI). For Financial Literacy (FL), 0.815 is the diagonal value indicating the square root of AVE. Value 0.763, 0.715, and 0.738 are off-diagonal sides representing their correlations with other constructs IFI, IMA and TFI, respectively, Similarly, Trust in Financial Institutions (IFI) 0.705 as diagonal value and off-diagonal values 0.763, 0.807, 0.736 are representing its correlations with FL IMA and TFI.

Islamic Microfinance Awareness (IMA) has a diagonal value 0.789, and the off-diagonal values (0.715, 0.807, 0.605) represent correlations with FL, IFI, and TFI. Lastly, Customer Access to Islamic Microfinance Products (TFI) has a diagonal value of 0.742, and off-diagonal values (0.738, 0.736, 0.742) indicate correlations with FL, IFI, and IMA. The Fornell-Larcker criterion suggests that discriminant validity is supported when the square root of the AVE for each construct is higher than its correlations with other constructs. In this case, the diagonal values generally exceed the off-diagonal values, implying satisfactory discriminant validity among the constructs.

Table 3. Discriminant Validity (Fornell Larcker)

	FL	**IFI**	**IMA**	**TFI**
FL	0.815			
IFI	0.763	0.705		
IMA	0.715	0.807	0.789	
TFI	0.738	0.736	0.605	0.742

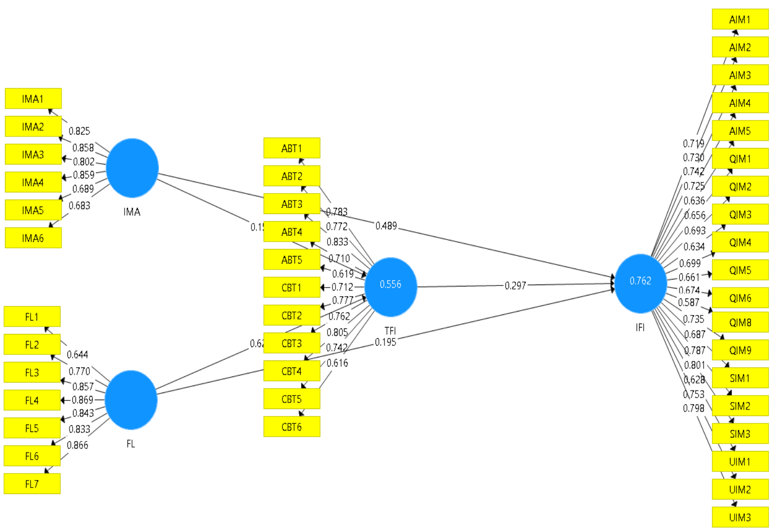

Figure 2: Measurement Model

Structural Model Assessment

Table 4 reports the outcomes of a comprehensive path analysis, delineating direct and indirect effects among different constructs within the studied model. Direct effects are elucidated as follows: Firstly, Financial Literacy (FL) exhibits a statistically significant positive direct effect on Trust in Financial Institutions (IFI) with a beta coefficient of 0.195 (T Statistics: 3.327, P Values: 0.001). Similarly, FL demonstrates a highly significant positive direct effect on Customer Access to Islamic Microfinance Products (TFI) with a substantial beta coefficient of 0.624 (T Statistics: 12.033, P Values: 0.000). Furthermore, Islamic Microfinance Awareness (IMA) manifests a significant positive direct effect on IFI (Beta: 0.489, T Statistics: 8.236, P Values: 0.000) and TFI (Beta: 0.159, T Statistics: 2.620, P Values: 0.009). Additionally, TFI presents a significant positive direct effect on IFI, denoted by a beta coefficient of 0.297 (T Statistics: 6.060, P Values: 0.000).

Moreover, the analysis uncovers notable indirect effects. Specifically, the indirect effect of FL on IFI through TFI is highly significant, with a beta coefficient of 0.185 (T Statistics: 5.683, P Values: 0.000). Likewise, the indirect effect of IMA on IFI through TFI is significant, exhibiting a beta coefficient of 0.047 (T Statistics: 2.280, P Values: 0.023). The path analysis elucidates significant direct relationships between Financial Literacy, Islamic Microfinance Awareness, Trust in Financial Institutions, and Customer Access to Islamic Microfinance Products. Additionally, the study unveils impactful indirect effects, shedding light on the influence of Financial Literacy and Islamic Microfinance Awareness on Trust in Financial Institutions through the mediating variable of Customer Access to Islamic Microfinance Products. These findings contribute valuable insights to understanding the interplay between the examined constructs.

Table 4. Path Analysis

Direct Effect	Beta	T Statistics	P Values	LL	UL
FL -> IFI	0.195	3.327	**0.001**	0.094	0.287
FL -> TFI	0.624	12.033	**0.000**	0.533	0.704
IMA -> IFI	0.489	8.236	**0.000**	0.393	0.584
IMA -> TFI	0.159	2.620	**0.009**	0.059	0.258
TFI -> IFI	0.297	6.060	**0.000**	0.217	0.378

Indirect Effect	Beta	T Statistics	P Values	LL	UL
FL -> TFI -> IFI	0.185	5.683	**0.000**	0.131	0.239
IMA -> TFI -> IFI	0.047	2.280	**0.023**	0.015	0.083

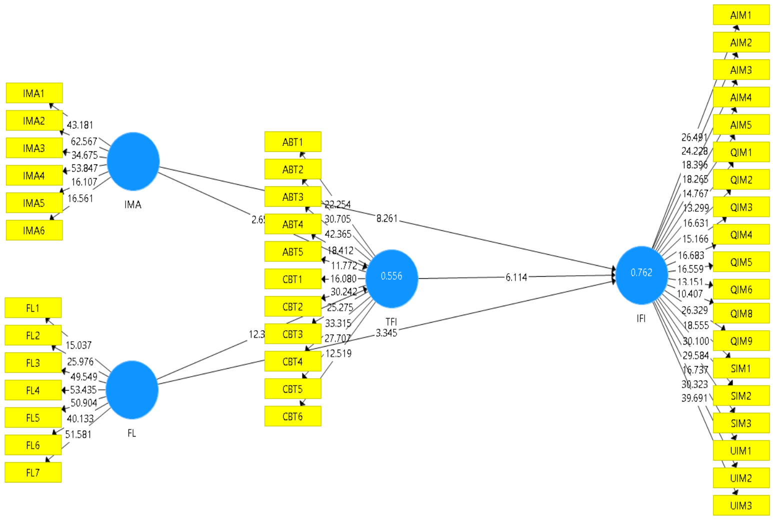

Figure 3. Structural model

DISCUSSION

The examination and ramifications of this research reveal significant revelations regarding the intricate workings of Islamic microfinance, illuminating the connections among crucial factors, including customer access to Islamic microfinance products, financial literacy, awareness of Islamic microfinance, and trust in financial institutions.

The study's results confirm the dependability of the measurement instruments we developed. This is further supported by Cronbach's Alpha and Composite Reliability values, which demonstrate strong internal consistency reliability (ranging from 0.877 to 0.943 and 0.908 to 0.949, respectively). Convergent validity is confirmed by the Average Variance Extracted (AVE) values, which vary between 0.497 and 0.665. These values indicate that the measurement instruments effectively capture the intended constructs.

Path analysis has allowed to identify both direct and indirect connections as constructs are linked in this investigation. Financial literacy enhances Customer Access to Islamic Microfinance Products and Trust in Financial Institutions. Awareness of Islamic microfinance similarly enhances Customer Access to Islamic Microfinance products and Trust in Financial Institutions. Including Customer Access to Islamic Microfinance products as a mediating factor, has increased understanding of the complexity of interactions among and between financial literacy, awareness of Islamic microfinance and trust in financial institutions.

From these findings, we see a number of practical implications for financial institutions, including policymakers and community stakeholders interested in Islamic microfinance initiatives. Policymakers can formulate targeted financial literacy strategies that allow communities to build considerable competence with the nuances of Islamic microfinance.

Financial institutions that embrace ethical behaviour will be able to cultivate customer trust within the community, making it more likely in turn that these institutions are able to offer Islamic microfinance products. Finally, community stakeholders will benefit from customized communication campaigns which generate mutual understanding and foster engaged participation.

CONCLUSION

By exploring the interdependent relationship among Islamic Microfinance Awareness, Financial Literacy, Trust in Financial Institutions, and Customer Access to Islamic Microfinance Products, the present study thoroughly deliberated the convoluted dynamics of Islamic microfinance. The theoretical framework advanced in the present study, drawing on the tenets of behavioural economics and Theory of Social Capital, has provided a comprehensive lens to understand the nuanced dynamics at play in Islamic finance.

These insights are useful for researchers, policymakers, and financial institutions. The priority given to focus awareness initiatives is consistent with the need for a deeper understanding of the ethical dimensions and benefits of Islamic Microfinance, while by capitalising on the positive association between financial literacy and trust, financial institutions can enhance their client education efforts, in turn developing a more informed, smarter clientele. The notion that trusts act as mediators in enabling customers to obtain Islamic Microfinance products implies that financial institutions can implement pragmatic approaches to establish and sustain trust by promoting open and honest communication and upholding ethical standards.

With the continuous development of the Islamic finance sector, these results establish a fundamental basis for subsequent investigations and pragmatic interventions. By integrating awareness-raising programs into more comprehensive financial literacy endeavours, policymakers can foster an atmosphere encouraging individuals to utilize specialized financial services and reap their benefits. This research enhances the body of knowledge regarding Islamic microfinance by providing a nuanced analysis of the interconnections between crucial determinants. The knowledge acquired from this research facilitates additional investigation, promoting a deeper understanding of Islamic microfinance's social and economic ramifications in various communities.

Theoretical Contribution

This research presents a significant theoretical contribution, making an informed and critical examination of the interconnections between Islamic Microfinance Awareness, Financial Literacy, Trust in Financial Institutions and Customer Access to Islamic Microfinance Products. The current study offers a contribution to the literature by extending the application of the behavioral economics principles in understanding how financial literacy influences trust in financial institutions, particularly in the context of Islamic microfinance. Furthermore, this research uniquely discusses the ethical aspects of financial transactions from an Islamic perspective, revealing how compliance with ethical standards influences the perceptions of financial institutions by the public. This cross-cultural application of the relationship between financial literacy and trust also constitutes a significant theoretical contribution, expanding the discourse. Most noteworthy, however is its novel and hitherto un-researched exploration of the roles of Islamic Microfinance Awareness in determining customer access to Islamic Microfinance products and trust in financial institutions. The study proposed theoretical framework introduces the mediating role of trust in financial institutions by which it is explained how trust facilitates the translation of peoples' financial literacy into their actual financial decisions. In essence, the study not only contributes theoretically but also in practice.

Practical Implications

The practical implications of this research are substantial for stakeholders, such as policymakers, financial institutions, and researchers, in the Islamic microfinance sector. One primary insight that can be gathered from this research is the need for focused awareness campaigns. Using the findings in this research, the policymakers can run campaigns to create awareness of Islamic microfinance. By providing the implications and advantages of involvement with Islamic Microfinance, these campaigns can build confidence among potential clients in order to participate in this new financial sector.

REFERENCES

Ahmad, Z. A., & Rusdianto. (2020). Impact of Transparency and Accountability on Trust and Intention to Donate Cash Waqf in Islamic Microfinance Institutions. *Shirkah*, *5*(2), 197–227.

Akbar, T., & Nabiha, A. . S. (2019). Performance of Islamic Microfinance Banks: The Case of a Developing Country. *KnE Social Sciences*, 268–288. https://doi.org/10.18502/kss.v3i22.5056

Albaity, M., & Rahman, M. (2019). The intention to use Islamic banking: an exploratory study to measure Islamic financial literacy. *International Journal of Emerging Markets*, *14*(5), 988–1012. https://doi.org/10.1108/IJOEM-05-2018-0218

Ali, S. N. (2011). *Shari'a Compliant Microfinance*. Routledge.

Allen, F., & Gale, D. (1999). Innovations in financial services, relationships, and risk sharing. *Management Science*, *45*(9), 1239–1253. https://doi.org/10.1287/mnsc.45.9.1239

Bayou, M. E., Reinstein, A., & Williams, P. F. (2011). To tell the truth: A discussion of issues concerning truth and ethics in accounting. *Accounting, Organizations and Society*, *36*(2), 109–124. https://doi.org/10.1016/j.aos.2011.02.001

Billah, M. M. (2021). Benchmarking Islamic Finance A Framework for Evaluating Financial Products and Services. In Routledge (Ed.), *Subjects Area Studies, Economics, Finance, Business & Industry*.

Braunstein, S., & Welch, C. (2002). Financial Literacy: An Overview of Practice, Research, and Policy. *Federal Reserve Bulletin*, *88*(11), 0–0. https://doi.org/10.17016/bulletin.2002.88-11

Chiu, Y., & Iris, H. (2016). Fintech and Disruptive Business Models in. *Journal of Technology Law & Policy*, *21*(1), 55–112.

Cuevas, C. E., & Fischer, K. P. (2006). Cooperative Financial Institutions. In *World Bank Publications* (Vol. 82, Issue Issues in Governance, Regulation, and Supervision).

Farrar, S., & Uddin, T. (2020). Building Islamic Ethics into Development: Exploring the Role and Limitations of "Islamic" Microfinance in Poverty Alleviation—An Indonesian Case Study. *Journal Law and Development Review*, *13*(2), 371–406.

Gallardo, J., Goldberg, M., & Randhawa, B. (2006). Strategic alliances to scale up financial services in rural areas. In *World Bank Working Paper* (Issue 76).

Gannon, B., & Roberts, J. (2020). Social capital: exploring the theory and empirical divide. *Empirical Economics*, *58*(3), 899–919. https://doi.org/10.1007/s00181-018-1556-y

Gim, G. C. W., & Ramayah, T. (2020). Predicting turnover intention among auditors: Is WIPL a mediator? *Service Industries Journal*, *40*(9–10), 726–752. https://doi.org/10.1080/02642069.2019.1606214

Goyal, K., & Kumar, S. (2021). Financial literacy: A systematic review and bibliometric analysis. *International Journal of Consumer Studies*, *45*(1), 80–105. https://doi.org/10.1111/ijcs.12605

Hair, J. F., Hult, G. T. M., Ringle, C. M., & Sarstedt, M. (2021). *Book Partial Least Squares Structural Equation Modeling (PLS-SEM) Using R*. Springer Nature. https://doi.org/10.1007/978-3-030-80519-7

Hassan, S., Rahman, R. A., Bakar, N. A., Mohd, R., & Muhammad, A. D. (2013). Designing islamic microfinance products for islamic banks in Malaysia. *Middle East Journal of Scientific Research*, *17*(3), 359–366. https://doi.org/10.5829/idosi.mejsr.2013.17.03.12160

Hayat, U., & Malik, A. (2014). Islamic Finance: Ethics, Concepts, Practice. In *Islamic Finance: Ethics, Concepts, Practice*. https://doi.org/10.2470/rflr.v9.n3.1

Kanwal, A., Tayyab, M., & Idrees, S. (2023). Exploring the Nexus of Financial Technologies, Financial Inclusion, and Blockchain in Islamic Finance within Digital Transformation. *Pakistan Journal of Humanities and Social Sciences*, *11*(4), 4055–4069. https://doi.org/10.52131/pjhss.2023.1104.0674

Kersting, L., Marley, R., & Mellon, M. (2015). The association between financial literacy and trust in financial markets among novice nonprofessional investors. *Academy of Accounting and Financial Studies Journal*, *19*(3), 201.

Khamis, F. M. (2021). Constructing Indicators For Islamic Financial Inclusion. *International Journal of Islamic Economics*, *3*(2), 101. https://doi.org/10.32332/ijie.v3i2.3720

Khan, M. A. (2022). *Islamic Economic System–A way forward to address Poverty and achieve Sustainability A Case Study on Islamic Microfinance*.

Kovács, L., & Terták, E. (2019). Financial Literacy: Theory and Evidence. *Bratislava, Szlovákia: Verlag Dashöfer*, 150.

Lai, M. H. C. (2021). Composite reliability of multilevel data: It's about observed scores and construct meanings. *Psychological Methods*, *26*(1), 90–102.

Lusardi, A., & Mitchell, O. S. (2013). The economic importance of financial literacy. In *Journal of Economic Literature* (Vol. 52, Issue 1).

Lusardi, A., & Mitchell, O. S. (2014). The economic importance of financial literacy: Theory and evidence. *Journal of Economic Literature*, *52*(1), 5–44. https://doi.org/10.1257/jel.52.1.5

Manzoor, Q.-A. (2011). Impact of Employees Motivation on Organizational Effectiveness. *Business Management and Strategy*, *3*(3), 36–45. https://doi.org/10.5296/bms.v3i1.904

Maulana, H., Razak, D. A., & Adeyemi, A. A. (2018). Factors influencing behaviour to participate in Islamic microfinance. *International Journal of Islamic and Middle Eastern Finance and Management*, *11*(1), 109–130. https://doi.org/10.1108/IMEFM-05-2017-0134

McAllister, D. J. (1995). Affect- and Cognition-Based Trust as Foundations for Interpersonal Cooperation in Organizations. *Academy of Management Journal*, *38*(1), 24–59. https://doi.org/10.5465/256727

Musavengane, R., & Kloppers, R. (2020). Social capital: An investment towards community resilience in the collaborative natural resources management of community-based tourism schemes. *Tourism Management Perspectives*, *34*(February), 100654. https://doi.org/10.1016/j.tmp.2020.100654

Nabi, G., Islam, A., Bakar, R., & Nabi, R. (2017). Islamic microfinance as a tool of financial inclusion in Bangladesh. *Journal of Islamic Economics, Banking and Finance*, *13*(1), 24–51. https://doi.org/10.12816/0051154

Nabi, M., & Aima, A. (2012). Availability And Awareness Of Microfinance In Jammu & Kashmir State. *International Journal of Research in Commerce, Economics and Management*.

Naveed, M., Farah, M. F., & Hasni, M. J. S. (2021). The transformative role of firm information transparency in triggering retail investor's perceived financial well-being. *International Journal of Bank Marketing, 39*(7), 1091–1113.

Obaidullah, M., & Khan, T. (2011). Islamic Microfinance Development: Challenges and Initiatives. In *SSRN Electronic Journal* (Issue 2). https://doi.org/10.2139/ssrn.1506073

Ozili, P. K. (2021). Financial inclusion research around the world: A review. *Forum for Social Economics*, *50*(4), 457–479. https://doi.org/10.1080/07360932.2020.1715238

Purwanto, P., Abdullah, I., Ghofur, A., Abdullah, S., & Elizabeth, M. Z. (2022). Adoption of Islamic microfinance in Indonesia an empirical investigation: an extension of the theory of planned behaviour. *Cogent Business and Management*, *9*(1). https://doi.org/10.1080/23311975.2022.2087466

Rafiki, A., Nasution, M. D. T. P., Rossanty, Y., & Sari, P. B. (2023). Organizational learning, entrepreneurial orientation and personal values towards SMEs' growth in Indonesia. *Journal of Science and Technology Policy Management*, *14*(1), 181–212.

Rahim, S. H. A., Rashid, R. A., & Hamed, A. B. (2016). Islamic financial literacy and its determinants among university students: An exploratory factor analysis. *International Journal of Economics and Financial Issues*, *6*(7Special Issue).

Rhyne, E. (2001). *Mainstreaming Microfinance: How Lending to the Poor Began, Grew, and Came of Age in Bolivia*.

Rohman, P. S., Fianto, B. A., Ali Shah, S. A., Kayani, U. N., Suprayogi, N., & Supriani, I. (2021). A review on literature of Islamic microfinance from 2010-2020: lesson for practitioners and future directions. *Heliyon*, *7*(12), 1–11. https://doi.org/10.1016/j.heliyon.2021.e08549

Safieddine, A. (2009). Islamic financial institutions and corporate governance: New insights for agency theory. *Corporate Governance: An International Review*, *17*(2), 142–158. https://doi.org/10.1111/j.1467-8683.2009.00729.x

Sagiyeva, L. A. K. R., & Shirazi, N. S. (2021). Islamic social finance: a literature review and future research directions. *Journal of Islamic Accounting and Business Research*, *12*(5), 707–728.

Saifurrahman, A., & Kassim, S. (2021). Islamic Financial Literacy for Indonesian MSMEs during COVID-19 Pandemic: Issues and Importance. *Journal of Islamic Finance*, *10*(1), 45–60.

Shinkafi, A. A., & Ali, N. A. (2018). Entrepreneurship development in Islamic economics. In *New Developments in Islamic Economics: Examples from Southeast Asia* (pp. 3–18). https://doi.org/10.1108/978-1-78756-283-720181001

Shrestha, N. (2021). Factor Analysis as a Tool for Survey Analysis. *American Journal of Applied Mathematics and Statistics*, *9*(1), 4–11. https://doi.org/10.12691/ajams-9-1-2

Tabrani, M., Amin, M., & Nizam, A. (2018). Trust, commitment, customer intimacy and customer loyalty in Islamic banking relationships. *International Journal of Bank Marketing*, *36*(5), 823–848. https://doi.org/10.1108/IJBM-03-2017-0054

Tamanni, L., & Haji Besar, M. H. A. (2019). Profitability vs Poverty alleviation: has banking logic influences Islamic microfinance institutions? *Asian Journal of Accounting Research*, *4*(2), 260–279. https://doi.org/10.1108/AJAR-05-2019-0039

Vivek, S. D., Beatty, S. E., & Morgan, R. M. (2012). Customer engagement: Exploring customer relationships beyond purchase. *Journal of Marketing Theory and Practice*, *20*(2), 122–146. https://doi.org/10.2753/MTP1069-6679200201

Wajdi Dusuki, A. (2008). Banking for the poor: The role of Islamic banking in microfinance initiatives. *Humanomics*, *24*(1), 49–66. https://doi.org/10.1108/08288660810851469

Widdowson, D., & Hailwood, K. (2007). Financial literacy and its role in promoting a sound financial system. *Reserve Bank Of New Zealand*, *70*(2), 37–47.

Yakubu, S. M., Mohammed, A. M. A. A. I., Musa, S. A., & Bello, H. H. S. J. M. (2021). Private Sector Preference for Professional Accountants in Nigeria. *Journal of Accounting Finance and Auditing Studies (JAFAS)*, *7*(3), 208–225. https://doi.org/10.32602/jafas.2020.026

Zahid, R. M. A., Rafique, S., Khurshid, M., Khan, W., & Ullah, I. (2024). Do Women's Financial Literacy Accelerate Financial Inclusion? Evidence from Pakistan. *Journal of the Knowledge Economy*, *15*, 4315–4337.

Zhou, W., Tsiga, Z., Li, B., Zheng, S., & Jiang, S. (2018). What influence users' e-finance continuance intention? The moderating role of trust. *Industrial Management and Data Systems*, *118*(8), 1647–1670. https://doi.org/10.1108/IMDS-12-2017-0602