Effect of Voluntary and Involuntary Islamic Social Finance Exclusion on Micro and Small Enterprises and Persistent Poverty in Zanzibar

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ABSTRACT

In recent years, there has been an increasing interest on using Islamic social finance all over the Islamic populated countries as the demand for financial products and services acquiescent with Shari'ah keeps increasing. The study was conducted to examine the impacts of voluntary and involuntary Islamic social finance exclusion on micro and small enterprises in Zanzibar. The sample size for this study consists of 287 head of households from the Islands of Pemba and Unguja in Zanzibar, and survey questionnaire was used as data collection instrument. Structural Equation Modeling (SEM), based on maximum likelihood estimation, and relevant analyses are used to analyse the collected data from relevant respondents. The findings showed that both voluntary and involuntary Islamic social finance exclusion has an effect on micro and small enterprises underdevelopment and persistent poverty in Zanzibar. The standardized regression weight has shown that household head are excluded from Islamic social finance mostly due to debts phobia and cost. The study limitation is that the findings are based on the financing small and medium enterprises, whereas, other entities can be researched in future. Although the originality/value of this study is the first study especially in Zanzibar to address the contribution of Islamic social finance in financing the business empirically. Thus, the study has offered several recommendations with regard to the means and practices of persistent poverty alleviation in Zanzibar via Islamic social finance.

Keywords: Financial Exclusion, Involuntary Islamic Social Finance Exclusion, SMEs Undervelopment and Persistent Poverty

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Introduction

Studies indicate that lack of access to finance is the biggest obstacle facing micro and small enterprises (MSEs). For instance, Adewale (2010) maintains that financial exclusion impedes the development of microenterprises and the acquisition of 'sustainable livelihood assets' by the poor. That happens while micro and small enterprises are an important source of jobs in developing counties, including Tanzania and Zanzibar. This observation suggests that the government has to help micro and small businesses by giving them financial assistance to make them effective.

In Zanzibar, however, both micro and small enterprises seem to face some challenges in terms of getting financial support (i.e. they are voluntarily and involuntarily financially excluded), technology use, financial management and management capability and skills (Makame, 2014). The reasons behind the said challenges facing SMEs in Zanzibar include the following. Firstly, about 98.4 per cent of small businesses in Zanzibar are formally owned by sole proprietors. Secondly, only 3.4 per cent of small businesses are registered with the Business Registrations and Licensing Agency (BRELA) (NBSR, 2012). Another major constraint facing this industrial sector in Zanzibar is the absence of an enabling business environment in terms of legal and regulatory framework (RGoZ, 2007). Currently, long legislative processes exist amidst limited access to finance the formal and informal business sectors. For these reasons, it is very difficult if not impractical for most SMEs in Zanzibar to be eligible for formal financial services.

A key aspect of understanding micro and small enterprises in Zanzibar is that of their being voluntarily and involuntarily excluded from financial services on religious grounds. Almost 98% of people in Zanzibar are Muslims. Most of them avoid conventional financial services as they deal with interest which is completely prohibited in Islamic teachings (*Al-Baqarah*; 2: 275). Apart from that, there is also an increasing concern that most of the financial requirements for business owners to get financial support make them very difficult to afford. Certainly, that is due to the nature of the business and level of income. Thus, people decide to use Islamic social finance (*zakat, sadaqah and waqf*) as alternative means of financial inclusion.

Based on this understanding, voluntary and involuntary Islamic social finance exclusion might have an impact on persistent poverty directly or indirectly in Zanzibar. The indirect effect is when small and medium enterprises are victims of financial exclusion, the owners may not able expand or diversify their business and the result is persistent poverty. However, reducing the financial inclusion for micro and small enterprises in

Zanzibar can be the means to reduce persistent poverty. According to Kumar & Balasubramanian (2015), financial inclusion can enhance the resilience and stability of the real economy, in general reducing poverty by providing individuals, households and small and medium enterprises with greater access to financial services.

Therefore, the objective of this study is to examine the impacts of voluntary and involuntary Islamic social financial exclusion on the underdevelopment of micro and small enterprises (MSEs) and persistent poverty in Zanzibar. The following section covers the literature review and methodology. Finally, the paper ends with results and conclusion.

Literature Review

Financial Exclusion

The European Social Watch Report (2010) defines financial exclusion as 'the inability of individuals, households or groups to access necessary financial services in an appropriate form', and this can be either a cause or a consequence of social exclusion or both (Simon et al., 2011). For example, in the UK alone, it was estimated that 1.7 million people did not have bank accounts, that 40 per cent of the working age population had less than £100 in saving, approximately 600,000 of the older population were financially excluded, and 51 per cent of 18 to 24-year-olds worried about money

(Peyton, 2017). An implication of this observation is the prospect that being incapable to access financial services is a serious issue.

In Africa, people are financially excluded because of weak usage and sustainability of financial services. For instance, Kessler et al., (2017) indicates that transaction accounts are too expensive in South Africa. Forty per cent of customers without an account complain that fees are too high and that bank branches are too far away. In Tanzania-Zanzibar, the financial sector is very dynamic but the population lacks financial education and financial exclusion remains a big challenge (Brown, Mackie, Smith, & Msoka, 2015). Almost 30 per cent of Tanzanians do have have bank accounts, and as for those who can access financial services, the level of their saving and borrowing remains obstinately low[1]. This observation has important implications for understanding the extent of the problem related to financial accessibility amongst the general populace.

Currently, in most Muslim majority countries, access to finance is said be increasing. Among the reasons for this include the improvement of Islamic financial services such as Islamic banking and finance, Islamic microfinance and Islamic social finance (Obaidullah & Shirazi, 2017). Normally, Islamic social finance (zakat, waqf and sadaqah) can help to improve household welfare and

[1]The Economist Intelligence Unit 2017, Financial exclusion to continue to weigh on economic growth, Tanzania

push small enterprise activity. However, a majority of respondents see Islamic social financial inclusion as a big problem both for households and for small enterprises (World Bank, 2014).

Voluntary Islamic Social Finance Exclusion

Voluntary social financial exclusion is the level of financial exclusion whereby people are self-excluded from social finance services (Sain, Rahman, & Khanam, 2016). The World Bank (2014) defines voluntary exclusion as a condition where a segment of the population or firms chooses not to use financial services either because they have no need for them or due to cultural or religious reasons. There is no specific reason for voluntary Islamic social finance exclusion; however, there are several factors that act as catalysts for this phenomenon, such as cultural capital, fear of debts and sometimes location. These factors may result in the households not having access to finance either directly or indirectly.

The study of Adeyemi, Huq Pramanik, Kameel, & Meera (2012) conclude that the phobia for debt may be a reason for the poor people in Ilorin, Nigeria not borrowing and cultural capital may also exclude them from borrowing from financial services. Zulkhibri (2016) states that despite the growth of the Islamic finance sector in many Muslim countries, many individuals and firms are still financially excluded.

He also concludes that in most Muslim countries, financial inclusion is only 27 per cent. Hence, voluntary Islamic social finance exclusion may be linked to individual preferences or cultural norms and low knowledge of Islamic social finance services.

Furthermore, access to finance has been found to be important to the development of small and micro enterprises and sustainable livelihood asset acquisition. So, self-exclusion from financial services would affect the expansion and diversification of household enterprises. In India, the majority of SMEs or 92.77 per cent had no finance or depend on self-finance (Chakrabarty, 2011). Thus, the level of financial exclusion is very high in India as most of them are excluded voluntarily. SMEs cannot remain unaffected by voluntary exclusion from financial services. In east Africa, the study conducted in the Mukuru slums in Nairobi by Murigi (2014) found that there is a positive significance between financial access and the financial performance of SMEs in the Mukuru slums. The results show that 43 per cent of the SMEs in Mukuru slums have informal financing, meaning they are voluntarily excluded from financial services, which would affect their business financial performance.

Adewale (2014) examined the relationship between financial exclusion (whether voluntary or involuntary) and

sustainable livelihood assets in Ilorin, Kwara state, Nigeria. He found that there is a relationship between financial exclusion and sustainable livelihood assets acquisition. This implies that lack of financial inclusion in Kwara state significantly and statistically hinders assets acquisition. Normally, non-financial assets (such as skills, social network, access to facilities) have a significant impact on the household's ability to achieve greater inclusion and build a better sustainable approach to their finance; however, these non-financial assets can bring the household to voluntary financial exclusion (FPF, 2010).

Furthermore, despite the increase in financial institutions in Tanzania, the level of access of households to these institutions remains very low and affects the development of MSEs (Ahmed & Jianguo, 2014). Specifically, in Zanzibar, around 46 per cent in rural and urban areas are excluded from financial services, which affects their business performance (Brown et al., 2015).

Involuntary Islamic Social Finance Exclusion

The study of Ajinaja & Odeyale (2017) tested two issues. The first is whether financial inclusion improves financial well-being and the second is the impacts of micro finance on the performance of small and medium scale enterprises. Both are related to this study. They found that there is a significant relationship between financial inclusion and financial well – being of low income earners. This implies that when low income households are financially included, they improve their income and if they are financially excluded, their poverty level will increase.

The study found that there is a positive significant relationship between micro finance and the performance of small and medium scale enterprises. The implication of this finding is that financial inclusion will have a positive significant impact on the development of small and micro enterprises but financial exclusion will have negative impact on the development of small and micro enterprises.

Furthermore, factors such as inadequate infrastructure causes involuntary financial exclusion. Makoni (2014) found that due to inadequate basic infrastructure in rural areas, banking services prefer not to invest in these areas, resulting in the people in those areas being involuntarily excluded from financial services. They cannot engage in business because there is a lack of financial support and they cannot sustain their sustainable livelihood assets, thus the intergenerational transmission of poverty.

Micro and Small Enterprises

The Commission of the European Communities (Liikanen, 2003), states that 'The category of micro, small and medium-sized enterprises (MSMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million'. At the same, a microenterprise is defined as 'an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million', while a small enterprise is defined as 'an enterprise which employs fewer than 50 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 10 million'.

Micro and Small Enterprises (MSEs) play an important role, particularly in poverty alleviation. Muturi (2015) found that MSEs will assist in the realization of Kenya Vision 2030 through employment, job creation, adoption of appropriate technology, development of a pool of skilled and unskilled labour, capital and wealth creation, increasing revenues and promotion of gender empowerment. According to Agyapong (2010), micro, small and medium enterprise in Ghana are in the fields of farming, fishing, small-scale mining, restaurants, food processing and other services. Thus he recommended that the government and policymakers institute viable credit support and non-financial business support services to help MSMEs grow. Ogbuabor, Malaolu, & Elias (2013) stated that burnt bricklaying has significant positive impact on poverty alleviation, job creation, and income generation in Nigeria; therefore, their study recommends that the challenges of poor infrastructure, low prices of bricks, low demand for bricks, and low operating capital faced by these small scale enterprises should be addressed by the various tiers of government and the financial system as a viable means of job creation, poverty alleviation and income generation in Nigeria.

MSEs contribute to the GDP of the country if they are managed properly. According to Adjei (2012), Micro, Small and Medium Scale Enterprises contribute a colossal percentage to the Gross Domestic Product (GDP) in ensuring economic growth, employment, income stability and poverty reduction in most developing countries like Ghana. To support this, countries with larger microenterprise (ME) or small and medium enterprise (SME) sectors have more rapid economic growth in per capita income (Anthony, Arthur, Nagarajan, Wood, & Ayyagari, 2008).

Methodology

Under the philosophical assumption, positivism was adopted for this study for several reasons. The main reason being that it fits the quantitative research design used in this study. Also, there is a need to use method and philosophy that fit together the insights provided

by quantitative research into a workable solution. Therefore, quantitative research design was employed in this study since it allows the researchers to explore, explain a phenomenon, and interpret data statistically in a wider and easy way. Employing this research design enabled the researchers to solve the issue at hand, while overcoming the limitations of quantitative research design

For data collection and analysis, a questionnaire was developed based on the Likert scale because it includes questions which require the respondents to indicate how much or to what extent they agree or disagree with the given statement in each construct. Following this type of rating scale, the options range from lowest to highest responses that is 1 to 7 respectively. These options are very strongly disagree (VD) = 1, strongly disagree (SD) = 2, disagree (D) = 3, somewhat agree (SWA) = 4, agree (A) = 5, strongly agree (SA) = 6, very strongly agree (VA) = 7.

Stratified random sampling was used to distribute 287 questionnaires to the respondents (heads of households) and all were collected. Respondents were classified by gender, age, marital status and occupation. Cronbach's Alpha test was conducted to measure the reliability of the instrument for all items and the result was 0.874, indicating a satisfactory level of internal consistency. The statistical tool used for analysis was Structural Equation Modeling (SEM), which includes confirmatory factor analysis and the full-fledged structural model.

Results And Discussion

Profile of Respondents

Table 1
Demographics of Respondents

Variable	Category	Percentage (%)
Gender	Male	50.5
	Female	49.5
Age	18-29	23.7
	30-39	27.9
	40-49	26.8
	50 and above	21.6
Marital Status	Married	70.7
	Single	17.4
	Divorced	11.8
Occupation	Self employed	35.9
	Public sector	23.7
	Private sector	16.7
	Others	23.7

Table 1 summarises the respondents' demographic information. As expected, the number of male household heads was almost the same as the number of female household heads. This is because the population of women in Zanzibar who represent their family as a head is high due to either death of their husband or polygamy. At the same time, it is envisaged that this distribution would help avoid gender sample bias in the data.

The age of the respondents in social research is the one of the most important characteristics in capturing

their views about a particular problem (Abideen 2010). Table 1 shows that 54.7 per cent of the respondents were between the ages of 30-49, which is more than half of the total respondents. This indicates that most of the heads of households were in the economically active labour force and they could manage their business and take on their family responsibilities well.

The majority of the respondents (70.7 per cent) were married, 17.4 per cent were single and 11.8 per cent were divorced. The average respondents were in the 30-39 age group. This age group normally comprises either persons who are married and are household heads or have taken over responsibility as household heads when parents transfer their responsibility to their children to take care of their family, or due to death, disability or desertion because of the hardship of their lives. The implication of this is it increases poverty in the family.

Table 1 also shows that the household heads were occupied in different sectors. The majority of the heads of household (35.9 per cent) was self-employed. Respondents who were engaged in the government and the private sectors comprised 23.7 per cent and 16.7 per cent respectively while 23.7 per cent of the household heads were not working or not employed. The implication of this result is that 59.6 per cent of the total respondents, which is more than half, were in need of help so they could improve or establish their own business. This is supported by the official information that the unemployment rate in Zanzibar is 34 per cent with a much higher real rate of youth unemployment and joblessness estimated at a high 85 per cent.

Test of the Model Fit

The goodness of fit of the measurement model was tested through both Confirmatory Factor Analysis (CFA) and Structural Equation Modeling (SEM). It was conducted using $SPSS_{23}$ and $AMOS_{23}$ Graphics model-fitting programme and adopting maximum likelihood estimation (Langrock & King, 2013). In examining this model fit, the number of measurement fit index was used such as the minimum value of the discrepancy between the observed data and the hypothesized model divided by the degree of freedom (CMN/df), the Comparative Fit Index (CFI), and the Root Mean Square Error of Approximation (RMSEA) as suggested in (Campobasso & Fanizzi, 2013). Table 2 shows the output of the confirmatory factor analysis and structural equation modelling (measurement model fits) as calculated using $AMOS_{23}$.

The results in Table 2 reveal that further analysis can be done to measure the hypothesis of this study.

Table 2
Tabular Presentation of Measurement Model Criteria Compared to Model Output

Model	Fit Indices		
	CMIN/DF	CFI	RMSEA
Cut-off point	2 ≥ CMIN/DF ≤ 5	CFI >0.90	RMSEA ≤ 0.08
CFA (Measurement model)	1.840	0.971	0.054
SEM (Measurement model)	1.840	0.971	0.054
Status	Accepted/Fit	Accepted/Fit	Accepted/Fit

Interpretation of Regression Weights, Covariance, and Correlations from Confirmatory Factor Analysis

Confirmatory Factor Analysis was used to test how well the measured variables represented the number of constructs. More importantly, CFA was used to confirm
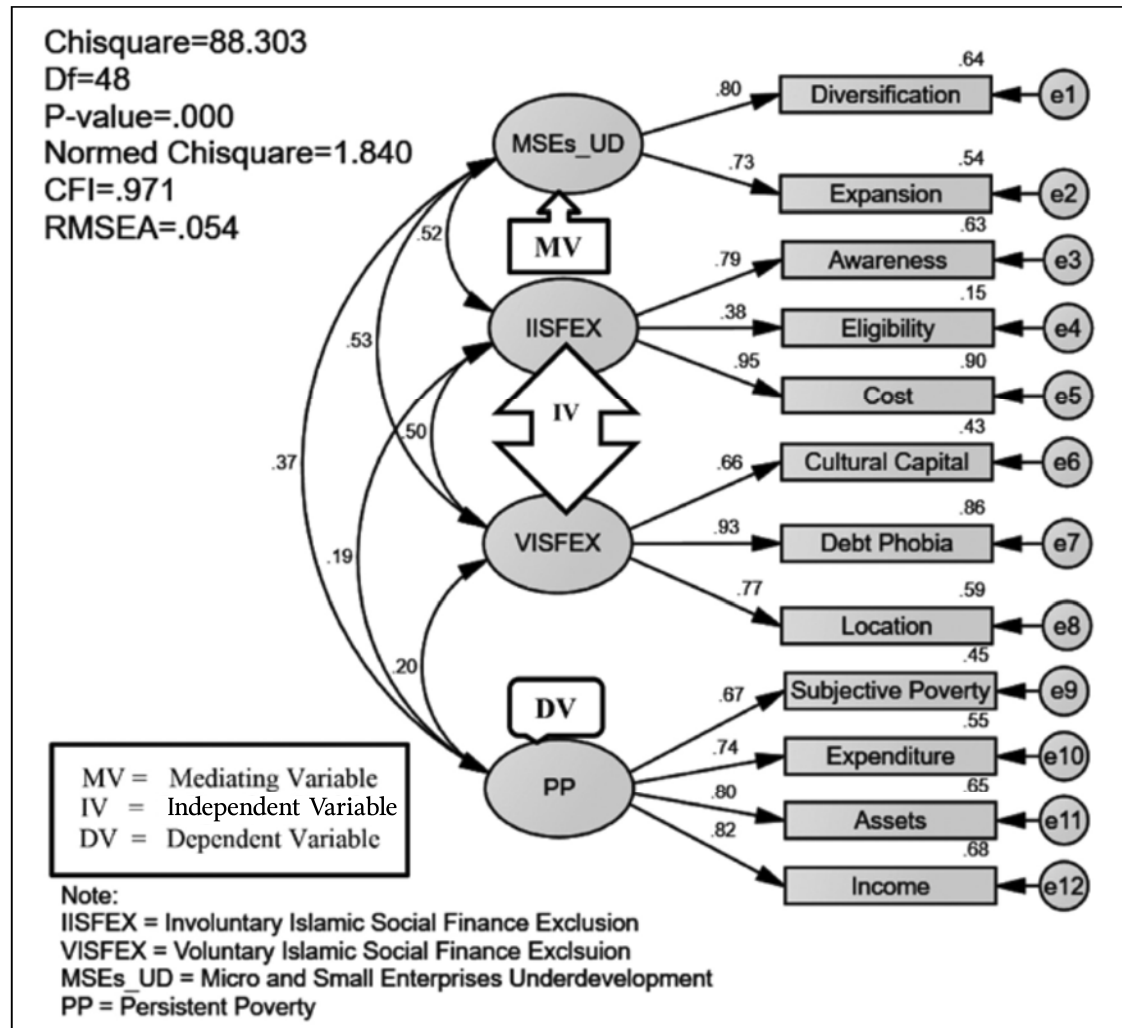

Figure 1
The Standardized Estimate for Confirmatory Factor Analysis (CFA)

Table 3
Regression Weights: (Group Number 1 - Default Model)

			Estimate	S.E.	C.R.	P	Label
Diversification	<---	MSEs_UD	1.152	.089	12.886	***	par_1
Expansion	<---	MSEs_UD	.881	.074	11.922	***	par_2
Awareness	<---	IISFEX	.908	.063	14.342	***	par_3
Eligibility	<---	IISFEX	.517	.080	6.422	***	par_4
Cost	<---	IISFEX	1.039	.059	17.723	***	par_5
Cultural	<---	VISFEX	.772	.065	11.828	***	par_6
Debt Phobia	<---	VISFEX	.915	.050	18.284	***	par_7
Location	<---	VISFEX	.808	.057	14.293	***	par_8
Subject	<---	PP	.943	.078	12.102	***	par_9
Expenditure	<---	PP	1.054	.077	13.721	***	par_10
Assets	<---	PP	1.104	.072	15.285	***	par_11
Income	<---	PP	1.065	.067	15.853	***	par_12

a hypothesized factor structure and also used as a valid procedure in measurement. The analysis that follows is obtained from the CFA.

Regression Weights

Table 3 shows the regression weights of the variables. There are unstandardised and standardized estimates. The outputs displayed under unstandardised estimates are standard error, critical ratio, and p-value. A critical ratio greater than 1.96 or a p-value smaller than 0.05 signifies the parameter is statistically discernible from zero at the 0.05 significance level. Three stars (***) mean that the p-value is less than 0.001. In this case, all of the variables listed were statistically significant because the p-values were less than 0.05 and Critical Ratio (CR) values of all indicators were

above the significant level, which is 1.96. Therefore, the regression weights associated with all indicators were significant.

Table 4 shows the standardized estimates of the latent and observed variables. The interpretation can be done as the correlation between the observed variable and the corresponding common factor. In these four factors, the regression weights were all significant. There were three indicators in voluntary Islamic social finance exclusion latent variable (cultural, debt phobia, and location). Among these, only debt phobia had high standardized loading of 0.925, while the remaining two indicators respectively had moderate factor loadings of 0.658 cultural capital, and 0.767 for location.

Table 4
Standardized Regression Weights: (Group Number 1 - Default Model)

			Estimate
Diversification	<---	MSEs_UD	.799
Expansion	<---	MSEs_UD	.734
Awareness	<---	IISFEX	.793
Eligibility	<---	IISFEX	.384
Cost	<---	IISFEX	.948
Cultural	<---	VISFEX	.658
Debt Phobia	<---	VISFEX	.925
Location	<---	VISFEX	.767
Subject	<---	PP	.674
Expenditure	<---	PP	.742
Assets	<---	PP	.803
Income	<---	PP	.825

Although involuntary Islamic social finance exclusion had three indicators (awareness, eligibility, and cost), the two indicators (awareness and cost) had high response to the factor. Their standardized regressions were 0.948 for cost and 0.793 for awareness. The eligibility had low standardized loading of 0.384, suggesting that it is not a reliable indicator of involuntary Islamic social finance exclusion. Diversification and expansion seem to be the reliable indicators for Micro and Small Enterprises which have also higher factor loading. Table 4 illustrates the explanation.

Covariance

Covariance is a measure of how much two variables vary together. There are positive and negative covariance. The positive covariance occurs where two variables are moving together in the same direction. This occurs when an increase in one variable leads to an increase in the other variable or a decrease in one variable also results in a decrease in the other. A large covariance means a strong relationship between variables. Therefore, the positive number can be used to indicate the magnitude of covariance and negative numbers can represent an inverse relationship.

Table 5
Covariances: (Group Number 1 - Default Model)

			Estimate	S.E.	C.R.	P	Label
MSEs_UD	<-->	IISFEX	.525	.058	9.109	***	par_13
MSEs_UD	<-->	VISFEX	.534	.057	9.298	***	par_14
MSEs_UD	<-->	PP	.366	.067	5.503	***	par_15
IISFEX	<-->	VISFEX	.498	.052	9.495	***	par_16
IISFEX	<-->	PP	.186	.065	2.861	.004	par_17
VISFEX	<-->	PP	.203	.065	3.107	.002	par_18

As seen in Table 5, the critical ratio (CR) was instructive as the measurement criteria. The Critical Ratio (CR) value of above 2 indicates the corresponding pair of the factors significantly covariated or the factors were correlated. If the CR value is less than 2, it indicates the corresponding pair of factors do not covariate or they are not related. Table 4 shows that all factors were above 2, meaning that all factors were correlated with their variable. Even the p-values for all factors were less than the significant level of 0.05, which means that all factors were related.

Correlations

Correlation is the most common useful statistics and it is used to explain the degree of relationship between variables. This statistical technique shows whether and how strongly pairs of variables are related. There is a slight difference compared to covariance because correlation tells how close or far two variables are independent from each other, while covariance tells how much two variables tend to change together. The correlation values can fall within the range of -1 to +1, while the covariance value can be outside of that range.

Table 6 shows the result of this study, which shows that all variables were positively correlated because the estimated values were all positive. For instance, the voluntary and involuntary Islamic social finance exclusion and medium and small enterprises were highly correlated because the correlation values were 0.534 and 0.525 respectively. This implies that if access to and usage of Islamic social finance improves, the business also improves and persistent poverty is reduced.

Table 6
Correlations: (Group Number 1 - Default Model)

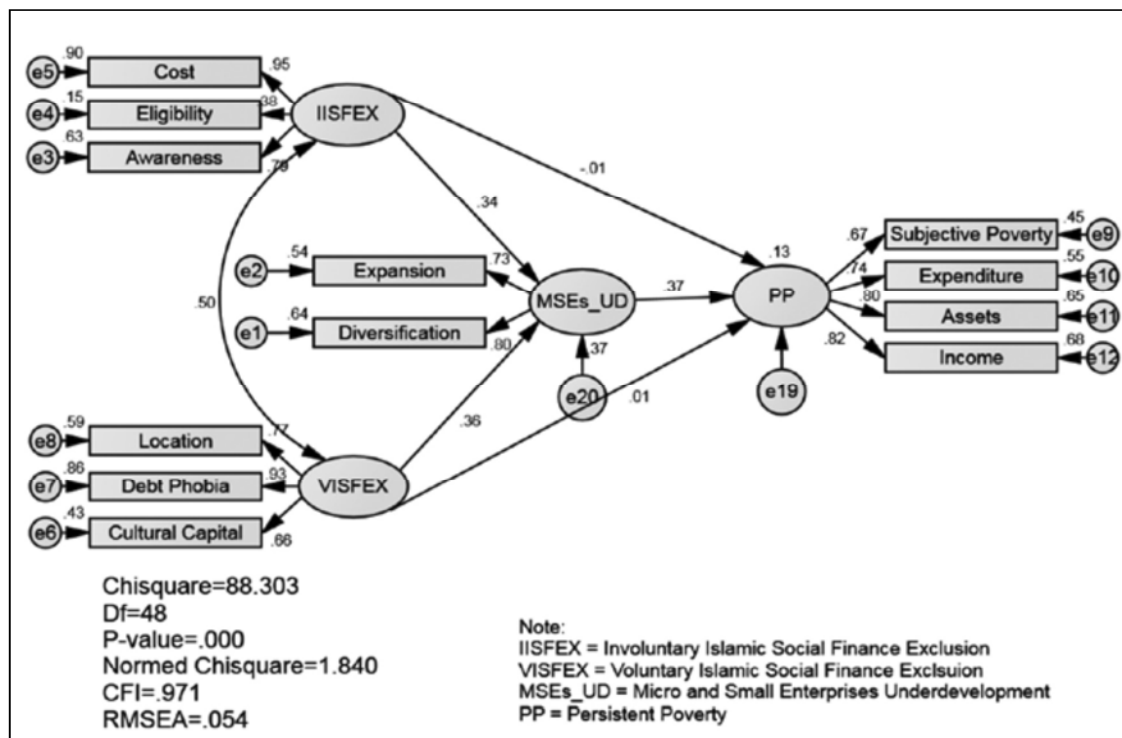|			Estimate
MSEs_UD	<-->	IISFEX	.525
MSEs_UD	<-->	VISFEX	.534
MSEs_UD	<-->	PP	.366
IISFEX	<-->	VISFEX	.498
IISFEX	<-->	PP	.186
VISFEX	<-->	PP	.203

Figure 2
The Standardized Estimate for Structural Equation Modeling

Testing Structural Relationships

In this study, four variables were tested using structural equation modeling in order to determine their impacts on Zanzibar society. These variables were Voluntary Islamic Social Finance Exclusion (VISFE), Involuntary Islamic social finance, Micro and small enterprises Underdevelopment (MSE_UD) and persistent poverty. The path estimate was used in structural model to show the relationship among these variables. To see how these variables were related, the hypothesis was created to test the relationship.

In Figure 2, Structural Equation Modeling is presented to provide the estimation of latent variables and observed variables, and testing the model whether the structure can be imposed and assessed as to fit of the data or not (Novikova, Richman, Supekar, Barnard-Brak, & Hall, 2013). More specifically, this modeling tests the structural relationship between the variables. That means the path estimate is used in structural model to show the relationship among the variables, to state the variable that has significant relationship with another variable. At this stage, the objectives of this study were tested and the questions were answered. In order to see how the variables were related and hypotheses were created so as to test the relationship between a latent variable and other latent variables, the following information is presented.

Involuntary Islamic Social Finance

The related measured variables which were used to measure involuntary Islamic social finance exclusion were cost, eligibility and awareness. The relevant hypotheses for involuntary Islamic social finance exclusion are:

- $H1_0$: There is no significant causal relationship between involuntary Islamic social finance exclusion and micro and small enterprises underdevelopment in Zanzibar.

- $H1_1$: There is a significant causal relationship between involuntary Islamic social finance exclusion and micro and small enterprises underdevelopment in Zanzibar.

- $H2_0$: There is no significant causal relationship between involuntary Islamic social finance exclusion and persistent poverty in Zanzibar.

- $H2_1$: There is a significant causal relationship between involuntary Islamic social finance exclusion and persistent poverty in Zanzibar.

Table 7
Regression Weights: (Group Number 1 - Default Model)

			Estimate	S.E.	C.R.	P	Label
MSEs_UD	<---	IISFEX	.381	.087	4.366	***	par_9
MSEs_UD	<---	VISFEX	.516	.112	4.602	***	par_10
PP	<---	MSEs_UD	.299	.087	3.451	***	par_11
PP	<---	IISFEX	-.012	.076	-.160	.873	par_13
PP	<---	VISFEX	.017	.101	.167	.867	par_14
Diversification	<---	MSEs_UD	1.000				
Expansion	<---	MSEs_UD	.765	.085	8.962	***	par_1
Awareness	<---	IISFEX	.873	.070	12.487	***	par_2
Eligibility	<---	IISFEX	.497	.079	6.290	***	par_3
Cost	<---	IISFEX	1.000				
Cultural	<---	VISFEX	.955	.086	11.115	***	par_4
Debt_Phobia	<---	VISFEX	1.133	.083	13.668	***	par_5
Location	<---	VISFEX	1.000				
Subject	<---	PP	1.000				
Expenditure	<---	PP	1.118	.105	10.679	***	par_6
Assets	<---	PP	1.171	.103	11.325	***	par_7
Income	<---	PP	1.129	.098	11.503	***	par_8

The results in Table 7 show that for hypothesis number one, there was a significant relationship between involuntary Islamic social finance exclusion and micro and small enterprises underdevelopment in Zanzibar. The researchers rejected the null hypothesis and accepted the alternative hypothesis. The null hypothesis was rejected because the p-value of this relationship was below the significance level of 0.05. This indicates that involuntary exclusion from Islamic social finance can highly affect the underdevelopment of micro and small enterprises.

By using a significance level of 0.05 and Critical Ratio (CR) that exceeds 1.96 in magnitude would be called significant. As for the second hypothesis, the p-value was 0.873, which is greater than the significance level of 0.05, and the critical ratio was less than 1.96, so the researcher failed to reject the null hypothesis because there was no significant causal relationship between involuntary Islamic social finance exclusion and persistent poverty in Zanzibar. This implies that people are poor not because they are involuntarily excluded from Islamic social finance, but because they don't have financial access for their micro and small business. This finding corroborates the finding in Makoni (2014) and Ajinaja and Odeyale (2017).

Voluntary Islamic Social Finance Exclusion

The variables that were used to measure voluntary Islamic social finance in this study were location, debt phobia and cultural capital. The following are the relevant hypotheses for voluntary Islamic social finance exclusion:

- $H3_0$: There is no significant causal relationship between voluntary Islamic social finance exclusion and micro and small enterprises underdevelopment in Zanzibar.

- $H3_1$: There is a significant causal relationship between voluntary Islamic social finance exclusion and micro and small enterprises underdevelopment in Zanzibar.

- $H4_0$: There is no significant causal relationship between voluntary Islamic social finance exclusion and persistent poverty in Zanzibar.

- $H4_1$: There is a significant causal relationship between voluntary Islamic social finance exclusion and persistent poverty in Zanzibar.

The results in Table 7 show that the third hypothesis of this study indicates that there was a significant causal relationship between voluntary Islamic social finance exclusion and micro and small enterprises underdevelopment in Zanzibar. This is because the p-value was less than the significance level of 0.05. The researchers rejected the null hypothesis and accepted the alternative hypothesis. It is an interesting result because even if people are self-excluded

from Islamic social finance, the effect is their business does not grow. Although there is the the possibility of voluntary financial exclusion, most people will in fact experience barriers to inclusion. Therefore, it is not good to choose self-exclusion because it will affect your future inclusion.

However, for hypothesis number four, the result shows that there was no significant causal relationship between voluntary Islamic social finance exclusion and persistent poverty in Zanzibar because the p-value was greater than the significance level of 0.05. Therefore, the researchers failed to reject the null hypothesis (see Table 7). This implies that when people are voluntarily excluded from Islamic social finance, it would not change their poverty level but it will affect what they are doing to earn income.

The findings in Table 8 indicate that of all the driving factors that cause self-exclusion from social financial services (debts phobia, cultural and location), involuntary Islamic social financial exclusion (cost, eligibility and awareness) had a high standardized factor loading.

Table 8
Standardized Regression Weights:
(Group Number 1 - Default Model)

			ESTIMATE
Awareness	<---	IISFEX	.793
Eligibility	<---	IISFEX	.384
Cost	<---	IISFEX	.948
Cultural	<---	VISFEX	.658
Debt_Phobia	<---	VISFEX	.925
Location	<---	VISFEX	.767

Table 8 also indicates that as the household head might be involuntarily excluded from Islamic social finance due to the high cost of getting financial support and lack of awareness of Islamic social financial services as manifestations of IISFEx, it is likely that the poor households micro enterprises may not be developing to their full potential. The findings indicate that IISFEx is both a statistically and practically significant determinant of MSE UD in Zanzibar.

Furthermore, people might decide not to have such services as they have a debt phobia of not being able to return the money back at specific periods. Also, people might decide to choose self-exclusion from social finance services just because the location of the service is very far.

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[2]James L. Arbuckle, 2013, IBM® SPSS® Amos™ 22 User's Guide

Table 9
Regression Weights: (Group Number 1 - Default Model)

			Estimate	S.E.	C.R.	P	Label
MSEs_UD	<---	IISFEX	.381	.087	4.366	***	par_9
MSEs_UD	<---	VISFEX	.516	.112	4.602	***	par_10
PP	<---	MSEs_UD	.299	.087	3.451	***	par_11

Micro and Small Enterprises Underdevelopment

The variables that were used to measure micro and small enterprises underdevelopment were diversification and expansion. So the relevant hypotheses are restated below:

- H_0: There is no significant causal relationship between micro and small enterprises underdevelopment and persistent poverty among the poor in Zanzibar.

- H_1: There is a significant causal relationship between micro and small enterprises underdevelopment and persistent poverty among the poor in Zanzibar.

Table 9 shows that there was a significant causal relationship between micro and small enterprises underdevelopment and persistent poverty among the poor in Zanzibar because the p-value was less than the significant level of 0.05.

So the researchers rejected the null hypothesis and accepted the alternative hypothesis. The implication of this relationship is that lack of access and involuntary or voluntary use of Islamic social finance services by the household head would lead to underdevelopment of micro and small enterprises and the level of persistent poverty in Zanzibar will also increase.

Persistence of Poverty

Based on structural equation modeling, all indicators that were used to measure persistent poverty had high loadings. Table 10 shows the factor loading for income and assets were .82 and .80 respectively, which were a little bit higher than the factor loadings for expenditure which was .74 and subjective poverty which was .67. The factor loadings for income was high compared to others. This shows how the income indicator is more sensitive to measure persistent poverty (Adewale, 2014). In addition, the result of this study showed that all indicators were statistically significant at p-<0.05.

Table 10:
Standardized Regression Weights:
(Group Number 1 - Default Model)

Subjective Poverty	<---	PP	.674
Expenditure	<---	PP	.742
Assets	<---	PP	.803
Income	<---	PP	.825

Conclusion and Recommendations

The study objective was to examine the impacts of voluntary and involuntary Islamic social financial exclusion on Micro and Small Enterprises (MSEs) under development and on persistent poverty in Zanzibar. This objective was achieved as MSE underdevelopment and persistent poverty are highly significant directly due to voluntary and involuntary Islamic social finance exclusion. Therefore, this study concludes that it is necessary to build a crosscutting strategy that could help household heads to develop, expand and diversify their business, which finally would help them to improve their economic condition and lead to the alleviation of persistent poverty. The study provides the evidence for the crosscutting strategy that can touch many areas such as implementation of sound macroeconomic policies, capability of creation/development of conducive microeconomic business environments, good governance, accessible financial services and supportive education.

The study recommends that the development strategy for SMEs must be integrated in the broader national development strategy and/or poverty eradication in developing countries including Tanzania-Zanzibar. In addition, the Zanzibar government should provide a conducive environment for financial inclusion through Islamic social finance (*zakat, waqf, and sadaqah*) for all kinds of businesses (small, medium and large) that would be more efficient. In this way, the poor can get a more stable income, which would enhance their well-being. ∎

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