PERSONAL COOPERATIVES MODEL: BASIC CONCEPTS AND EVIDENCE FROM JORDAN

*Ahmed Taha M. Al Ajlouni**

Abstract

This paper focuses on the cooperative finance model and its applications in managing financial needs at personal and household levels. The model is based on the principle of mutual qarḍ ḥasan where interest-free loans are provided to each member of the cooperative society, and the model can be called the Personal Cooperatives (PC) model. It represents an important way to finance consumer needs and enable savings for short and medium-term periods. The PC model is also an interesting phenomenon that should be studied thoroughly in the context of Muslim communities since it represents a substitute for the traditional banking system. This paper accordingly seeks to study the perception of participants involved in the PC model in order to identify their motives and personal evaluation of this model. The study further explores the participants' attitudes toward the operation of this model based on Sharīʿah (Islamic law) principles. It is an exploratory study utilising the survey research approach. A random sample of participants in a medium-size city in Jordan whose members depend on the PC model in managing their financial needs has been selected. The questionnaire method has been used to collect data about: the economic and demographic traits of the participants; motives behind their participation in the PC model; their experience with and views on the PC model; and whether they find it better to institutionalise the model or maintain the status quo. The main findings of this survey generally agree with the mainstream findings of previous literature. The analysis of demographic traits shows that the PC model is not restricted to a particular gender. Another key

* Ahmed Taha M. Al Ajlouni, PhD, is Associate Professor at the College of Business and Economics, Qassim University, Kingdom of Saudi Arabia. He can be contacted at ajlouni69@yahoo.com

finding of this survey is the low ratio of default risk. The general trend shows very positive attitudes of the sampled members towards the PC model. The survey also highlights that PC societies can be a substitute to banks in providing personal credit.

Keywords: Personal Cooperatives Model, Personal finance, Cooperative finance, Personal credit, Informal credit.

I. INTRODUCTION

Mainstream research in finance in general, including Islamic finance, tends to focus on studies at the corporate and institutional levels while only a small proportion is devoted to studies at the personal and household levels. Managing personal finance at the individual and household levels still has great potential for researchers and scholars. The non-banking informal retail finance sector, through cooperative initiatives, has not yet gained tangible interest.

This paper focuses on a cooperative finance model which has been working very well in some Muslim communities and dates back to an earlier period before the emergence of Islamic banks. It has served as an effective tool in financial planning, procuring short- and medium-term funds, and enabling savings at the personal and household levels. The model is based on the principle of mutual *qarḍ ḥasan* where interest-free loans are provided to each member of the cooperative society, and the model can be called the Personal Cooperatives (PC) model.

Despite the fact that this model of financing is not profit oriented and does not focus on providing financing to commercial entities, it represents an important way to raise funds for meeting consumer needs and to enable savings for short and medium-term periods. Besides, the PC model is an interesting phenomenon that should be studied thoroughly in the context of Muslim communities since it represents a substitute for the traditional banking system, benefiting from the experience of other countries like China and Nigeria.

According to the PC model, one can procure a sum of money without charge and without formal legal requirements or obligations.

A group of people—such as family members, relatives, neighbours, work colleagues, village residents, or any related group—can decide to form a cooperative group with every member paying an equal amount of money each month (e.g. USD10). The collected sum of money from the group is then given to one of the members every month. For example, suppose that 20 persons participate in the process, each one of them will pay USD10 monthly for 20 months and each will have one chance out of twenty to receive the collected monthly fund of USD200. The cooperative finance ends in due course at the twentieth month when all members have received their monthly payments. The premise can be applied for different groups of people, different income clusters, and different purposes.

The purpose of this paper is to report on a survey about personal financial planning for personal and household purposes using a non-traditional model that merges the cooperative initiative with an Islamic way of financing (*qarḍ ḥasan*). The study surveys a sample of participants who depend on the PC model in managing their finances. Participants have been questioned about their economic and demographic traits, motives behind their participation in the PC model, their experience with and views on the PC model, and whether they find it better to institutionalise this model or maintain the status quo. The study further explores the participants' attitudes toward the operation of this model based on Sharīʿah (Islamic law) principles. Even though the study focuses on the personal level of cooperative finance, it is presumed to be a significant contribution to the cooperative finance literature for developing a model for corporate cooperative finance in the future.

II. PERSONAL FINANCIAL COOPERATION AS AN INFORMAL FORM OF FINANCE

Human societies have known different forms of cooperation; cooperation in the financial sphere is one of them. Historically, people helped each other in procuring required funds for different purposes, in addition to building social safety nets in cases of illness, disability, or any event that may harm their income or wealth. Such initiatives were shaped by cultural values and norms.

Nowadays, many schemes of financial cooperation are developed and used around the globe. Some of them are called formal finance; the formal financial providers being *"those that are subject not only to general laws but also to specific banking regulation and supervision (including all kinds of banks and non-bank financial intermediaries)"* (CGAP, 2012). The overwhelming portion of the global financing facilities lies under this classification.

Semi-formal providers comprise another kind of finance; they are *"registered entities subject to commercial laws but are not necessarily regulated or supervised by banks (including financial NGOs, credit unions, and cooperatives)"* (CGAP, 2012). Informal finance is described by Ayaggari et al. (2010: 2) as:

> those informal financial institutions that play a complementary role in the formal financial system by servicing the lower end of the market—informal financing typically consists of small, unsecured, short term loans restricted to rural areas, agricultural contracts, households, individuals or small entrepreneurial ventures. Informal financial institutions rely on relationships and reputation and can more efficiently monitor and enforce repayment from a class of firms than commercial banks and similar formal financial institutions can. By informal financial institutions, we refer to the entire gamut of non-market institutions such as credit cooperatives, moneylenders, etc. that do not rely on formal contractual obligations enforced through a codified legal system.

Informal finance is thus characterised by contracts or agreements which are formed without reference or recourse to the legal system to exchange cash in the present for promises of cash in the future (Schreiner, 2000: 2). Allen et al. (2013) classify interpersonal lending between family and relatives as an informal form of financing. In this study, we will consider this kind of finance as unique as it is not institutional but based on social networks with the absence of formal regulatory or government intervention. For the purpose of this study, it will be referred to as an informal form of personal financing.

III. INFORMAL FINANCE: VIRTUES AND WEAKNESSES

Schreiner's (2000) definition of informal finance includes the non-organisational form of finance as one kind of it. Based on this, Schreiner (2000: 2) mentions six basic virtues of informal finance:

- Slashed transaction costs;
- Supply of not just loans but also savings and implicit insurance;
- Services sensitive to constraints faced by women;
- Substitution of confidence in character for physical collateral;
- Socially-enforced and/or self-enforced contracts; and
- Sequences of repeated transactions.

According to Schreiner (2000), informal finance is beneficial compared to a situation where individuals cannot access financing at all, and it will always have a place for both the rich and the poor. This is the case of undeveloped and semi-developed communities.

Other research, overwhelmed by the fact that poor people are capable of fashioning their own financial instruments in the absence of formal services, tends to overlook some important constraints of informal finance. In this respect, Christensen (1993) highlights some limitations like small size and narrowly based financing, short-term and unsecured loans, and lack of suitable collateral.

IV. PERSONAL FINANCIAL COOPERATION: EXAMPLES OF WORLD EXPERIENCE

Although the idea of mutual personal credit on the basis of zero-percent interest has been studied for a long time (e.g., societies applying this idea in China were studied in the 1930s), there is no evidence of tangible efforts to capitalize upon this idea, nor has it been subjected to analysis on the micro- or macro-economic level. Moreover, global awareness of this form of finance is still fragmented on the theoretical and practical fronts. The researcher has not found studies about the effects of these societies on banks or other money lenders. Some disseminated efforts (Turvey & Kong, 2009), as discussed below, were however found for developing the personal

finance model such that it has been institutionalised in rural areas in some countries like China, India and Nigeria as a means to fight poverty.

During the review of past literature on non-banking finance and personal credit, many initiatives involving the application of this model around the world have been found. The mainstream experience considers the institutional form, where the model is applied in a kind of institution, governmental and non-governmental, providing microfinance and consumer-oriented loans. A small number of these institutions are in the form of personal, non-regulated entities. The overwhelming trend in these initiatives as applied in the West (North America and Europe) has adopted the traditional interest-rate model when providing credit.

In China, as in many countries, the model comprising informal personal borrowing amongst relatives excelled the formal initiatives (Turvey and Kong, 2009). The zero-percent interest charged amongst friends and relatives explains this success.

A study about informal lending amongst friends and relatives in China presented valuable information about the informal personal finance model. It also revealed impressive results. The study showed that informal borrowing amongst friends and relatives from farming households in rural areas, based on a zero-percent interest rate model, is incredibly strong and culturally directed (Turvey and Kong, 2009: 4). The study found that informal lending amongst friends and relatives was practiced in more than 67% of households that have some form of debt.

The first rural credit cooperative (RCC) was founded in northern China in 1923 (Myers, 1970) and the idea and implementation spread to such an extent that by 1939 rural credit cooperatives were being established by the government throughout China (Fei and Chang, 1945). During this period rural credit societies (RCS)[1] started, which are described as a sort of savings society where members contribute in order to receive a fixed sum in the future. The RCS is based on the idea of mutual personal lending, and time value is considered implicitly in this model as the participants pay more or less according

1 The author uses the acronym RCS, while it is referred to as RCF in the original text.

to their turn in the society.[2] The RCS can be viewed as the first efforts in China to advance a system of microcredit with group membership.

Through recent studies about China, evidence suggests, and quite overwhelmingly, that friends and relatives no longer charge interest on loans. He (2006a) estimated that informal financing of Chinese agriculture ranges between 2,001 and 2,750 billion yuan, most of it between friends and relatives. He (2006a) further indicated that 61.57% to 79% of farm households used informal finance. He and Li (2005) found that 47.36% of households in Guizhou borrowed from RCC and 57.22% from friends or relatives. These numbers are very much in line with the numbers reported in the current study and emphasise the significance of lending amongst friends.

In Nigeria, the predominant sources of informal financing come from variations of traditional savings and credit associations or cooperatives. Rotating Savings and Credit Associations (ROSCA) are considered a relatively stable source of income that meets the needs of small traders and micro entrepreneurs throughout Nigeria. The "rotating" component refers to a fund that is created from the pooled resources of members, which is then distributed as the group deems fit. In spite of the fact that there are different versions (some prefer the non-rotating model while others prefer interest-based lending and borrowing) (Marx, 2004: 8-9), the basic premise of these types of informal finance assure that traditional groups work together for their benefit to meet the financial needs of the participating members (Ehigiamusoe, 2011: 82).

---

2 According to the RCS original model, anyone in need of money could organise a society and collect 10 members. In the first meeting the organiser will collect a total of 100 yuan in prescribed amounts from all members and over the subsequent 10 periods, will repay into the pool an amount exactly equal to 100 yuan. At the second meeting a subscriber receives 100 yuan and this is treated as a loan. Since it is held for the longest period the first subscriber will have to deposit more than all others. The second subscriber pays a little less to account for shorter loan durations and so on. The last subscribers are actually contributing as savings and for this they have to pay in less. Thus the first subscriber who receives 100 yuan in the second meeting might contribute a total of 145 yuan over 5 years while the 10th subscriber would contribute only 55 yuan in total to receive 100 yuan in year 5 (81% simple return on savings). The organiser thus gets an interest-free loan but must also provide a feast at each meeting. If any member defaults, the organiser is responsible for making that member's payment; thus the RCFs have to rely on existing ties and trust to ensure repayment (Fei and Chang, 1945).

In the USA, personal credit developed in an institutional form known as “circle lending”. Its mission is to help individuals gain access to affordable credit and to promote successful debt repayment. It provides borrowers with the tools, resources, and enabling technology to improve a borrower’s ability to approach potential lenders from within their circle, and it enables lenders to structure less-risky debt arrangements and reduce the hassle of payment collection. The company involved in circle lending provides unique repayment plans suited for interpersonal loans, e.g. seasonal repayment plans for business loans, amortized repayment plans for private mortgages, graduated repayment plans for start-ups and emergency cash flow situations. In the case of default, circle lending empowers individual private lenders with many of the rights and capabilities normally reserved for lending institutions such as collection, credit reporting, and loan restructuring.

Circle lending is also practiced in other countries such as the United Kingdom in another form called peer-to-peer (P2P) lending (see, Davis, 2012; Moenninghoff & Wieandt, 2013). P2P lending is also known as person-to-person lending, peer-to-peer investing and social lending (Malekipirbazari & Aksakalli, 2015; Wang & Ma, 2015). According to Xusheng (2014), P2P lending is established in many developed economies and is gaining recognition in developing economies. It is a practice of lending money to unrelated individuals, or "peers", without going through a traditional financial intermediary such as a bank or other traditional financial institution. This lending takes place online on peer-to-peer lending companies' websites using various lending platforms and credit checking tools. Accordingly, Klafft (2008) describes P2P lending as *“online platforms where borrowers place requests for loans online and private lenders bid to fund these in an auction-like process”*. In this market, internet-based platforms serve as intermediaries or network orchestrators linking entrepreneurs with potential funders (Bruton et al., 2015).

US P2P platforms issued approximately USD5.5 billion in loans in 2014. The potential market indicates that the projected P2P market in USA will be USD150 billion by 2025 (Price Waterhouse Coopers, 2015).

V. RESEARCH OBJECTIVES AND METHODOLOGY

The purpose of this paper is to report on a survey on personal financial planning for personal and household purposes via the Personal Cooperatives (PC) model. The study surveyed a sample of participants who depend on the PC model in managing their finances. The sample comprised 200 people who have been involved in PCs during the last two years in Mafraq, a mid-sized city in Jordan. Participants were informed that participation in the study was optional. Participants were asked about their economic and demographic traits, motives behind participation in the PCs, their experience, how they judge the current model of PCs, and if they consider it better to institutionalize this model or maintain the status quo. Out of the 200 questionnaires, 174 were returned and 172 were accepted.

VI. EMPIRICAL RESULTS

a. Demographic and Economic Characteristics

Table 1 summarises the main demographic and economic characteristics of the participants. The survey revealed that 52% of the sample population are female, 64% of them married, 28% are single, and a small proportion are divorced or widowed.

With regard to the age of the participants in PCs, the majority of them (71%) are below the age of 45 while 21% are between 45-55 years old. A small portion of the participants was found to be older than 55 years.

Table 1 further shows that the majority (30%) of the sample population are university graduates, while 27% have a high school certificate, 17% have less than high school education, 16% have a diploma (two years after secondary school), and 9% are at graduate studies level.

With regard to employment, Table 1 shows that the largest segment (44%) of the sample members work in the public sector while a large number (30%) are unemployed. 8% of the population work for private sector firms, 8% run private businesses, and 8% are freelancers.

The majority of the respondents (67%) earn a monthly income of less than 500 Jordanian dinars (JDs), 24% of them earn 500-1000 JDs; while the remaining (8%) earn more than 1000 JDs per month.

Table 1: Demographic Traits

	Variable	Number	%
Gender	Male	82	0.48
	Female	90	0.52
Marital Status	Single	48	0.28
	Married	110	0.64
	Divorced	6	0.03
	Widowed	8	0.05
Employment	Public Sector	76	0.44
	Private Sector Firm	14	0.08
	Private Business	14	0.08
	Freelancer	14	0.08
	Unemployed	52	0.30
	Blank	2	0.01
Age	<25-35	72	0.42
	<35-45	50	0.29
	>45-55	36	0.21
	<55-65	12	0.07
	>65	2	0.01
Academic Qualifications	Less than High School	30	0.17
	High School	46	0.27
	Diploma	28	0.16
	University Degree	52	0.30
	Graduate Studies	16	0.09

Monthly Income Cluster	< 500	116	0.67
	500- < 1000	42	0.24
	1000 - <1500	8	0.05
	1500 - < 2000	4	0.02
	2000 >	2	0.01
	Total	**172**	**1**

b. Statistical Data About Respondents' Participation in PCs

Table 2 shows that 52% of the sample members give less than 25% of their income as installments to the cooperative societies, 34% of them devote between 25%- 50%, 10% allocate 50% -75%, and 1% allocate more than 75% of their income.

The table further reveals that 38% of participants pay less than 100 JDs as their monthly share to PCs, while 37% of them pay 100-500 JDs, and 20% pay 500-1000 JDs. A small percentage (4%) pays more than 1000 JDs.

27% of the PC societies have an average number of less than 10 participants, 49% have 10-15 participants, 15% have 15-20 participants, while 9% have more than 20 participants.

Over the last 5 years, 30% of the respondents participated in a single society, 50% of them participated in 2-4 societies, 13% and 7% participated in 5-9 and above 10 societies respectively.

Currently, the respondents reported that 66% of them are participating in one society, 26% of them participate in 2-4 PCs, and the residual 8% participate in 5 or more PCs.

Regarding number of shares for each participant, the results show that 65% of the respondents have one share, while 31% have two shares and 3% have more than 2 shares.

Table 2: Statistical Data about Participation

	Class	No.	%		Participation	No.	%
Percentage of Income paid as Monthly Installment(s)	< 25%	90	0.52	Participation in number of PCs over the last 5 years	1	52	0.30
	25%– < 50%	58	0.34		2-4	86	0.50
	50%– < 75%	18	0.10		5-9	22	0.13
	75%-100%	2	0.01		>10	12	0.07
	No Answer	4	0.02	Average Number of Current participation	1	114	0.66
Monthly Amount / Share	< 100	66	0.38		2-4	44	0.26
	100 - < 500	64	0.37		5-9	4	0.02
	500 - < 1000	34	0.20		>10	2	0.01
	1000 - < 2000	6	0.03		No Answer	8	0.05
	> 2000	2	0.01				
Average Number of Participants in the Societies	< 10	46	0.27		**Shares**	**No.**	**%**
	10 - < 15	84	0.49	Average Number of Shares in One Society	1	112	0.65
	15- < 20	26	0.15		2	54	0.31
	20 - < 25	10	0.06		3	4	0.02
	> 25	6	0.03		>4	2	0.01

c. Main Problems Facing Participants in PCs

As indicated in Table 3, about half of the respondents (47%) reported that the delinquency of payments was the main problem they faced when dealing with societies. Unfair turn distribution was another key issue for 19% of the sample population. The survey further reported that 9% of the participants mentioned that recruiting sufficient number of candidates for the PCs was an issue. 7% of the respondents disclosed that they did not face any problem when dealing with PCs while 1%- 5% of the respondents reported that they experienced more than one problem and 2% suffered from all the issues mentioned.

Table 3: Key Issues Faced by Participants in PCs

	Problem(s)	Number	%
1.	Member(s) Delinquency	80	0.47
2.	Member(s) Default	2	0.01
3.	Participants' Turn Distribution	32	0.19
4.	Assembly of Sufficient Number of Participants	16	0.09
5.	All of the Above	4	0.02
6.	1 + 2	2	0.01
7.	1 + 3	8	0.05
8.	1 + 4	6	0.03
9.	1 + 3 + 4	6	0.03
10.	3 + 4	4	0.02
11.	Have not faced any problem	12	0.07
	Total	172	1

d. Reasons behind Participation in PCs

As Table 4 indicates, 70% of the respondents said that the Sharīʿah viewpoint against commercial banks is the main reason for participating in PCs. Tough procedures, hard collateral policy, and high cost of borrowing were perceived by 8%, 2% and 7% respectively. A combination of more than one reason was perceived by 1% - 2% of the respondents.

With regard to the reasons behind participants' decision to seek financing via societies (PCs) instead of banks, 62% of the respondents said that the Sharīʿah viewpoint against banks is the main reason for that. Low return, no suitable bank products and distrust of all kinds of banks were reported by 3%, 15% and 8% of the respondents respectively while 8% said that there were other reasons behind their participation in PCs.

The main reason for participation in PCs was the current need for money (48%); other respondents mentioned the expected need for money (17%), willingness to help others (15%) and saving for future needs (13%) as the reasons for their participation in PCs.

Table 4 also shows that 43% of the respondents indicated that the main purpose behind participation is to pay for essential expenses, while 34% of the respondents answered that buying durables is the main purpose. 7% said that housing is their main reason. 5% mentioned that borrowing for marriage expenses was the main purpose.

Table 4: Reasons behind Participation in PCs

		Reason	**No.**	**%**			**Purpose**	**No.**
Reason Behind Leaving Banks to Finance via Societies (Borrowing)	1	Sharīʿah Viewpoint Against Banks	120	0.7	Main Purpose Behind Participation	1	Current Need for Money	82
	2	Tough Procedures	14	0.08		2	Expected Need for Money	30
	3	Hard Collateral Policy	4	0.02		3	Just Saving for Future	22
	4	Cost of Borrowing	12	0.07		4	Willingness to Help Others	24
	5	Other Reasons	6	0.03		5	1 + 4	2
	6	All of the Mentioned	6	0.03		6	1 +3 + 4	4
	7	1 + 4	4	0.02		7	2 + 3	2
	8	2 + 3 + 4	2	0.01		8	2 + 4	4
	9	1 + 2	2	0.01		9	3 + 4	2
	10	3 + 4	2	0.01				
		Reason	**No.**	**%**			**Purpose**	**No.**
Reason Behind Leaving Banks to Finance via Societies (Saving)	1	Sharīʿah Viewpoint Against Banks	106	0.62	Purpose of Procuring Money: to spend them in	1	Buying Durables	58
	2	Low Return	6	0.03		2	Essential Expenses	74
	3	No Suitable Bank Products	26	0.15		3	Housing	12
	4	Distrust for All Kind of Banks	18	0.1		4	Marriage	8

	5	Other	14	0.08		5	Other	8
	6	No Answer	2	0.01		6	1 + 2	2
		Total	172	1		7	All of the Mentioned	2
						8	2 + 3	4
						9	No Answer	4
						Total	172	1

e. Sharīʿah Concerns

Table 5 reveals that 65% of the sample members inquired about the Sharīʿah legitimacy of the societies. Of the people who had Sharīʿah concerns, 84% inquired about the Sharīʿah legitimacy of the PCs before their participation, 8% asked during their participation, and an equal portion asked after it.

Table 5 further shows that 37% of the respondents asked Sharīʿah scholars about the Sharīʿah legitimacy of the PCs, 28% asked a relative or friend, 27% asked a local devout, while 8% inquired from other sources.

Table 5: Sharīʿah Concerns

	Inquiry	**Number**	**%**
Inquiry About the Sharīʿah Legitimacy of Societies	Yes	104	0.65
	No	56	0.35
	Total	160	1
Asking about Sharīʿah Approval	**When did you ask about Sharīʿah Approval**	**Number**	**%**
	Before Participation	88	0.84
	During Participation	8	0.08
	After Participation	8	0.08
	Total	104	1

	Who did you ask about Sharīʿah Legitimacy	Number	%
Inquired person	Relative or Friend	29	0.28
	Local Devout	28	0.27
	Sharīʿah Scholar	38	0.37
	Other	9	0.08
	Total	104	1

f. General Evaluation of PCs

Table 6 shows that 88% of the respondents agree that PC societies helped them effectively in solving their financial problems.

Table 6 also unveils that 65% of the respondents agreed on regulating PC societies.

The majority (84%) of the participants agreed on expanding the premise of PC societies so that they have a wider reach in the society.

The majority (85%) of the respondents also agree with the view that the PC societies can be substitutes to banks in advancing personal credit.

Table 6: General Evaluation of PC Societies

	Participation in societies helped effectively in solving sole financial problems		Participation in societies effectively in solving other financial problems		Are you in favour of regulating societies?		Are you in favour of expanding the premise of societies?		Do you think that the societies can be substitute to banks in personal credit?	
Degree of Agreement	**No.**	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**
Strongly Agree	64	0.40	76	0.48	56	0.35	80	0.50	94	0.59
Agree	76	0.48	64	0.40	48	0.30	54	0.34	42	0.26
Neutral	10	0.06	10	0.06	18	0.11	20	0.13	14	0.09
Disagree	2	0.01	4	0.03	20	0.13	4	0.03	8	0.05
Strongly Disagree	8	0.05	6	0.04	18	0.11	2	0.01	2	0.01
Total	160	1	160	1	160	1	160	1	160	1

VII. DISCUSSION

a. Demographic Characteristics

Married people were found more attracted to PCs because they needed to manage their financial affairs more than singles. The high rate of unemployment among the participants may refer to housewives who were included in the survey.

The high education level of the participants in PCs as compared to the national averages (Department of Statistics, 2013) shows the increased level of awareness about PCs in Jordan.

As indicated earlier, the majority of the respondents (67%) earned monthly income of less than 500 Jordanian dinars (JDs). Hence, it could be contended that the average income of the majority of the participants, which is below the average monthly income of household in Jordan (500 JDs compared to 841) (DOS, 2010), was a significant factor that affected the decision of members in participating in PCs. In addition, the soaring prices of basic goods and services in Jordan since 2010 could be said to be another important reason behind the members' participation in PCs.

b. Statistical Data about Participation in PCs

Data about main participation characteristics encapsulated a lot of important indicators that could be helpful in understanding how the PC model is working on the ground.

The results of this study show that participants used this model on a semi-regular basis. This means that they were very familiar with this model and found it acceptable for their use. This is supported by the fact that 92% of the sample were currently engaged in a PC arrangement.

From the data collected, it was found that the average number of participants per PC society tend to be small. This could be because participation in PCs depends on interpersonal relations developed between the PC and participants.

The remarkable result found in this study is that default risk is very low from the experience of the sample members. This was based

on the rare cases of default between members during the times they participated in this arrangement. The result assures that the essential factor in this scheme is trust, supported by strong social interpersonal relations. This result has important implications regarding the confidence level, social ties, and the risks associated with adopting the PC model in financial planning for personal purposes.

c. Reasons behind Participation and the Sharīʿah Viewpoint

Data collected about the Sharīʿah views beheld by the participants unveiled the strong religious background of the respondents as 65% were concerned about the Sharīʿah legitimacy of the PC initiatives. This has an important implication as the Islamic modes of financing could be easily accepted by respondents. The current need for money combined with the Sharīʿah view held against commercial banks were the key reasons explaining the drive towards engaging with PCs rather than seeking financing from banks. This is not unexpected in a Muslim country like Jordan where people have a high degree of sensitivity regarding the religious viewpoint in their economic activities.

The slight portion of participants seeking financing from PCs for housing and marriage against buying durables and essential expenses could be because the financing provided by PCs is small in comparison to the money needed for housing and marriage.

d. General Evaluation of PC Societies

The general perception of the participants regarding the PC model uncovered impressive positive valuation of this scheme. The people questioned were enthusiastic about developing this idea by regulating it and further expanding the model so that it is made accessible to the larger society. The preference of the sample population for the PC societies as compared to banks also reflected the importance of this model in providing personal financing.

The strong positive attitude of the sample members towards PCs should however be put in the right context as it is appropriate in solving only short-term financial problems. This is clear from the analysis of the purpose of financing and the amount of financing

provided by PCs which has been discussed earlier. The viability of PCs to help in solving long-term problems or capital expenditure will be investigated in a later study.

VIII. CONCLUSION AND RECOMMENDATIONS

The main purpose of this study is to report about the main characteristics of the PC model that has been implemented in different parts of the world, including Muslim societies, to meet the needs of personal financing at individual and household levels. The study particularly examined the perception of participants involved in the PC model in Mafraq, a mid-sized city in Jordan, in order to identify their motives and personal evaluation of this model.

The main findings of this survey generally agree with the mainstream findings of previous literature. However, some differences in the demographic traits were specific to this study.

The analysis of demographic traits showed that this model is not restricted to a particular gender; both males and females in the Jordanian city participated in the PC model. Married people were seen to be more attracted to the model. The analysis further shows that more than half of them have stable-income jobs in public and private sectors, which is reflected in the low percentage of default. The members who participated in the model were also well educated, with 83% having high school and higher qualifications.

One of the remarkable findings of this survey is the low ratio of default risk, as 1% of the sample members found default as being an arising issue in the functioning of the model. This is less than the percentage of the bank nonperforming loans to total gross loans in Jordan in 2014, which amounted to 5.6%, and less than the average for the same ratio between 2010 and 2014, which amounted to 7.4% (World Bank).

The results reveal that about two-thirds of the society represented by the sample seek personal financing from PCs; nearly half of them need money for current expenditure, and 17% need money for planned future expenditure. The majority of the sample has a negative attitude towards banks and resorts to PCs because of this view.

With regard to the purpose of engaging in PCs, the survey results found it consistent with its objectives and amount of financing provided, as the people involved in the sample devote the majority of the PC financing for expenditure on home appliances and for essential short-term needs. Respondents who required long-term financing for housing and marriage constituted only a small portion.

The survey showed that the majority of the sample population was concerned about the legitimacy of their involvement in the PC model from the Sharīʿah point of view. A large number of the population referred to Sharīʿah scholars or other persons before getting involved in the PC model.

In general, the sample population had a very positive attitude towards the PC model. They clearly agreed that PCs were a successful way to help themselves and others in solving financial problems. The majority of participants were in favour of regulating PC societies and expanding their reach and services so that they are accessible to more people. The survey further revealed that the PC societies can be a substitute to banks in procuring personal credit.

Overall, this study examined an important model which has not yet received significant attention in mainstream finance literature. As the issue is new and multidisciplinary, it calls for more and thorough studies to be undertaken on the area, especially involving comparative analyses between countries and the possibility of applying it on an institutional level in Muslim countries. The organisations which are interested in fighting poverty are invited to benefit from this model as an instrument for helping poor people. Academic and research institutions are also called upon to include the subject of cooperative and personal finance in their research and curriculum of business and finance studies.

References

Allen, F., Qian, M., & Xie, J. (2013). Understanding Informal Financing. *Asian Bureau of Economic Research*.

Anyanwu, C. M. (2004, November). *Microfinance Institutions in Nigeria: Policy, Practice and Potentials*. Paper presented at the G24 Workshop on "Constraints to Growth in Sub Saharan Africa," Pretoria, South Africa.

Ayyagari, M., Demirgüç-Kunt, A., & Maksimovic, V. (2010). Formal Versus Informal Finance: Evidence from China. *Review of Financial Studies, 23*(8), 3048-3097.

Bruton, G., Khavul, S., Siegel, D., & Wright, M. (2015). New Financial Alternatives in Seeding Entrepreneurship: Microfinance, Crowdfunding, and Peer-to-Peer Innovations. *Entrepreneurship Theory and Practice, 39*(1), 9-26.

Christensen, G. (1993). The Limits to Informal Financial Intermediation. *World Development, 21*(5), 721-731.

Consultative Group to Assist the Poor/The World Bank Group. (2010). *Financial Access 2010: The State of Financial Inclusion Through the Crisis*. Washington DC, USA. Retrieved from http://www.microrate.com/media/docs/general/FA_2010_Financial_Access_2010_Rev.pdf

Davis, A. (2012). *Seeds of Change: Emerging Sources of Non-bank Funding for Britain's SMEs*. Centre for the Study of Financial Innovation. Retrieved from http://static1.squarespace.com/static/54d620fce4b049bf4cd5be9b/t/551fb53ae4b00f468f89b775/1428141370781/Seeds+of+Change+Full.pdf

Ehigiamusoe, G. (2011). *Issues in microfinance: Enhancing financial inclusion*. Binin City, Nigeria: Mindex Publishing Co. Ltd.

Hsiao-Tung, F., & Chih-i, C. (1945). *Earthbound China: A Study of Rural Economy in Yunnan*. University of Chicago Press.

Guo, P., & Jia, X. (2009). The Structure and Reform of Rural Finance in China. *China Agricultural Economic Review, 1*(2), 212-226.

Guo, P., & He, G. (2006). *Estimation of the Aggregate of China's Rural Informal Finance*. Beijing, P.R.China: Center for Rural Finance and Investment Research, China Agricultural University.

He, G. (2006). *Credit-Only Commercial Micro Credit: Pilots in China—Case Analysis of Quan Li Microcredit Lt Co, Guangyuan/Sichuan PRC*. Beijing, P.R.China: Center for Rural Finance and Investment Research, China Agricultural University.

He, G., & Li, L. (2005). Peoples Republic of China: Financial Demand Study of Farm Households in Tongren/Guizhou of PRC-Survey in Wanshan, Songtao, Yanhe, Dejiang, Sinan and Yinjiang. *Technical Assistant Consultants Report Proj 35412*. Asian Development Bank.

Household Expenditure & Income Survey. (2011). *2010 Annual Report*. Amman, Jordan: Department of Statistics. Retrieved from http://www.dos.gov.jo/dos_home_e/main/index.htm

Jordan in Figures. (2013). *2012 Annual Report*. Amman, Jordan: Department of Statistics.

Kadale Consultants. (2012). *Study on Informal and Non-Formal Rural Financial Services*. Hereford, UK: Concern Universal UK. Retrieved from http://concern-universal.org/wp-content/uploads/2014/07/CUMO-Study-of-Rural-Finance-Summary.pdf

Klafft, M. (2008, July). Online Peer-to-Peer Lending: A Lenders' Perspective. *Proceedings of the International Conference on E-Learning, E-Business, Enterprise Information Systems, and E-Government, EEE*, 371-375.

Kropp, J. D., Turvey, C. G., & Just, D. R. (2008). The Role of Non-financing Threats and Nonmonetary Payoffs in Lender-Borrower Relationship: A Trust-Based Lending Experiment. *Southern Economics Association Annual Meetings*. November 20–23, 2008, Washington, DC.

Lee, S. and Persson, P. (2013). Financing from Family and Friends (IFN Working Paper No. 933; NYU Stern Working Paper FIN-12-007; IFN Working Paper No. 933; ECGI - Finance Working Paper No. 358). Retrieved from http://ssrn.com/abstract=2086625 or http://dx.doi.org/10.2139/ssrn.2086625

Malekipirbazari, M., & Aksakalli, V. (2015). Risk Assessment in Social Lending via Random Forests. *Expert Systems with Applications, 42*(10), 4621-4631.

Marx, M. T. (2005). *Assessment of Community Banks in Nigeria* (Working Paper No. 5). University of Cologne, Development Research Center.

Moenninghoff, S. C., & Wieandt, A. (2013). The Future of Peer-to-Peer Finance. *Zeitschrift für betriebswirtschaftliche Forschung*, 466-487.

Myers, R. H. (1970). *The Chinese Peasant Economy: Agricultural Development in Hopei and Shantung, 1890-1949* (Vol. 47). Cambridge, Mass.: Harvard University Press.

Oluyombo, O. O. (Ed.). (2012). *Cooperative Finance in Developing Economies*. Soma Prints Limited.

Schreiner, M. (2001). Informal Finance and the Design of Microfinance. *Development in Practice*, 637-640.

The World Bank (2014). *World Development Indicators: Bank Nonperforming Loans to Total Gross Loans*. Retrieved from http://data.worldbank.org/indicator/FB.AST.NPER.ZS/countries

Turvey, C. G., & Kong, R. (2010). Informal Lending Amongst Friends and Relatives: Can Microcredit Compete in Rural China? *China Economic Review, 21*(4), 544-556.

Wang, J. G., Xu, H., & Ma, J. (2015). Risks in the Online Lending Industry. In J. G. Wang et al. (Eds.), *Financing the Underfinanced* (pp. 119-138). Springer-Verlag Berlin Heidelberg.

Xusheng, Y. (2014). Inside China: Reining in P2P Lending. *International Financial Law Review, 33*(5), 224.

Zeller, M. (2006). A Comparative Review of Major Types of Rural Microfinance Institutions in Developing Countries. *Agricultural Finance Review, 66*(2), 195-213.

NOTES ON CONTRIBUTORS

Ahmed Taha M. Al Ajlouni, PhD, is currently Associate Professor at the College of Business and Economics (AACSB Accredited), Qassim University, Kingdom of Saudi Arabia. He holds a PhD in finance and master's degree in Islamic banking. He has been teaching at the graduate and undergraduate levels in Jordan and Saudi Arabia since 1996. He is a member of the American Economic Association (AEA) and was named one of the Top 100 Educators of 2012 by the International Biographical Centre. He was listed in the Expertise database of BRISMES British Society of Middle Eastern Studies in 2013. He is also a member of the Islamic International Foundation for Economics & Finance; a working member of the Scientific Association for Investment and Finance; and a working member of the Scientific Association for Islamic Banking in Kingdom of Saudi Arabia.

Dr. Al Ajlouni has published two books, one of them on Islamic finance theory and the other on investment principles. He is currently interested in pursuing research in the areas of cooperative finance and microfinance, community and cooperative funding and financial activities supporting ethical and sustainable business and investment practices.

Engku Rabiah Adawiah Engku Ali, PhD, is Professor at the IIUM Institute of Islamic Banking and Finance (IIiBF), International Islamic University Malaysia (IIUM). She obtained her Bachelor of Laws (LLB) and LLB (Sharīʿah) from the IIUM. She later completed her Master of Comparative Laws from the same university. In 1998, she was conferred a PhD in Law from the University of Aberdeen, United Kingdom. Her research interests include the Islamic capital market, Islamic banking and finance, and Islamic insurance (*takāful*). She is also a member of the Sharīʿah Advisory Council of Bank Negara Malaysia, Securities Commission Malaysia and Labuan Financial Services Authority (Labuan FSA), and an independent Sharīʿah Advisor for Islamic securities (*ṣukūk*) issuance.

Faleh Alrashidi, PhD, is Assistant Professor of public authority for applied education and training at the College of Business Studies, Kuwait. He teaches financial management, establishing and managing small projects, and inventory management. He has published many research papers and presented his work at numerous conferences and seminars. Dr. Alrashidi obtained his Ph.D. in finance from Durham University, the United Kingdom, and his master's degree in the United States.

Manijeh Sabi, PhD, is a professor and Emily Mantilia Chair at The Sage Colleges in Albany, New York, USA. She holds a PhD in economics from Northeastern University, Boston, Massachusetts, a master's degree in economics from Kent State University, and a bachelor's degree in economics from Wittenberg University in Ohio. Her main research areas are issues related to transitional economies and microfinance in Central Asia. She was a Fulbright scholar in Tajikistan in 2009 and Azerbaijan in 1995.

Manzoor Ahmed, PhD, is Associate Professor of Economics and Dean of the Faculty of Social Sciences, Management and Information Technology at Lasbela University, Pakistan. He also works as Director of Academics at the same university. He is also associated with Durham Business School, Durham University, as Visiting Academic Scholar. Dr Ahmed has published many research papers and presented his work at numerous conferences and seminars. He obtained an M.Sc. and Ph.D. in economics from Durham University, the UK.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.