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Financial Exclusion, Soft Segregation and Moral Constraints as Drivers of Entrepreneurial Activities in Scottish Muslim Immigrants

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ABSTRACT

This study examines financial structures adopted by Muslim immigrant entrepreneurs in Scotland and the challenges they face accessing state-driven financial support. It explores the effectiveness of different financing models, emphasising how religious values and moral concerns shape financial decisions. The study suggests that formal, top-down state support often clashes with strong religious sentiments, prompting entrepreneurs to seek morally aligned, informal financing alternatives. Focusing on Scotland, particularly cities like Aberdeen, Dundee, Edinburgh and Glasgow, the research highlights the financial integration challenges faced by Muslim immigrants, underscoring their entrepreneurial innovations rooted in religious obligations. The paper analyses financial services available to these entrepreneurs, including the Scottish Growth Scheme, and identifies gaps and opportunities within Scotland's financial landscape. Through in-depth interviews with 26 Muslim immigrant entrepreneurs, the findings reveal a dependence on informal financing sources and a reluctance to engage with conventional banks due to religious prohibitions. This study ultimately provides insight into how financial exclusion, coupled with moral and religious constraints, drives innovation and alternative financial practices amongst Scotland's Muslim immigrant entrepreneurs.

1 | Introduction

The small medium enterprises (SMEs) are the lifeblood of every economy as they significantly contribute to business innovations, job creation, poverty eradication and overall economic development and growth. Therefore, both developed and emerging markets are developing policies that result in socioeconomic efforts to develop and grow the SME sector. The academic literature identifies several antecedents, barriers and consequences for entrepreneurial SMEs. However, little is known on how and why immigrant entrepreneurs, particularly Muslims, gain access to finance from alternative sources. Also very little is known on their decision-making process and preference for funding their enterprises through informal connections, rather than through formal financial institutions. We argue that their decision on financing for starting or for growing their businesses might be affected by several factors including religion, moral values, financial knowledge and eligibility criteria in Scotland.

A recent report by Scottish Government (2021) shows that in 2021 Scotland was home to 342,125 SMEs—equivalent to 99.3% of all the private-sector enterprises, creating approximately 1.2 million jobs. Immigrants (including Muslims) own about 20% of all SMEs in the United Kingdom (FSB 2019). The number of businesses owned by immigrants noticeably declines when we look at the ownership figures for large business scale. Very

Policy Implications

- Develop government-backed zero-interest loans and other *Shariah*-compliant financing products to cater to the needs of Muslim entrepreneurs. This approach can address religious constraints against interest-bearing financial instruments, facilitating greater financial inclusion for Muslim immigrant entrepreneurs and reducing reliance on informal financing networks.
- Empower community-based financial support networks by strengthening the role of community-based financial initiatives such as mosque-led microfinance, rotating savings groups and community-based loans. Policies that encourage collaboration between Islamic institutions and government bodies can promote inclusive access to financing, foster community engagement and enhance the economic resilience of marginalised groups.
- Enhance financial education and awareness campaigns by implementing targeted educational initiatives to improve understanding of Islamic finance options and clarify misconceptions about available financial products. Partnerships with Islamic banks, community leaders and local business networks could play a crucial role in educating entrepreneurs about *Shariah*-compliant alternatives, their associated benefits and their limitations.
- Form a dedicated task force on inclusive financial practices by bringing together experts, community leaders and financial professionals. This task force will identify and address barriers faced by Muslim entrepreneurs. It will aim to develop culturally sensitive policies, create a supportive financial ecosystem and explore innovative financing models such as *Musharakah* (partnership) and *Mudarabah* (profit-sharing contracts). These models, aligned with Islamic principles, will foster economic growth and promote inclusivity within the financial sector.

less evidence is available in literature on the factors that hamper or enable immigrants to access different sources of finance to scale up their SMEs in Scotland, such as the entrepreneurs' use of formal or informal sources of finance. Formal or informal financing determines whether a regulatory or supervisory system exists to provide borrowers with accountability and investors with protection (Elston, Chen, and Weidinger 2016).

Muslim immigrant entrepreneurs, hailing from diverse backgrounds, exhibit variations in their engagement with the Scottish financial system, which operates within a formal regulatory framework and alongside an unregulated alternative channel of informal financing. This study aims to address the question of which financing structures prove most effective for distinct groups of Muslim immigrant entrepreneurs and the circumstances under which such effectiveness is observed. The hypothesis posits that the financial experiences of these entrepreneurs in Scotland, particularly concerning state-driven financial support and offerings, are constrained due to religious values and moral restrictions on the use of interest-bearing financial instruments.

The state-driven financial supports are constructed largely with an ethos of 'one size fits all' and 'top-down' approach, intrinsically excluding the Muslim community. This exclusion is grounded within the religious sentiment against the use of interest-bearing financing for entrepreneurial activities. Consequently, Muslim entrepreneurs find themselves informally and discreetly navigating towards 'innovation from below', seeking informal 'workarounds' to circumvent formal financing that lacks *Shariah* compliance. These informal strategies may involve leveraging Islamic charity funds from mosques and other private Islamic organisations or adopting morally consistent structures such as rotating savings and credit associations, ethical or green banks, community loans, direct deposits, or sub-economy retail and supply chain methods. Through in-depth interviews with Muslim entrepreneurs, this study delves into the development of financial knowledge, pathways and social networks that formulate the framework of informal financing and are driven by aspirations of Muslim immigrant entrepreneurs. We also attempt to uncover the diverse and innovative ways in which the Muslim immigrant entrepreneurs navigate the moral and religious narratives within their everyday lives and its rhythms to identify and facilitate the informal arrangements which they undertake along the way.

This paper is organised as follows. Section 2 delivers on soft segregation and search for alternative financial support– access to finance, SME's financial schemes, especially for the immigrant entrepreneurs. The Section 3 discusses the methodological framework of the study, Section 4 discusses the perspective of the Muslim immigrant entrepreneurs, while Section 5 provides conclusion and recommendations.

2 | Soft Segregation and Search for Alternatives

Muslim immigrants are one of the least financially integrated migrant groups; however, they are still responsible for healthy number of micro entrepreneurial ventures (Atkinson 2006; Ghoul 2017). Experiencing religion as a barrier to financing makes Muslim immigrant entrepreneurs more distinctive when compared with other entrepreneurs. The religious prohibition on using interest- bearing financial instruments have excluded Muslim entrepreneurs from benefitting from any state-driven fundings and barred them from capital accessible through traditional financial system (Brekke and Larsen 2020; Brekke, Larsen, and Kozaric 2021). The impact of this can be observed in multiple political, economic and social indicators. For instance: Avdukic et al. (2022) show that the lowest participation of Somali Muslims in UK higher education is due to the religious barrier against using interesting bearing student loans provided by the UK government. Study by Beck and Brown (2011) and Demirguc-Kunt, Klapper, and Randall (2013) also noted that non-Muslims are nearly three times more likely than Muslims to have a bank account. Aldén and Hammarstedt (2016) showed the glass-ceiling effect experienced by immigrant small business owners in accessing capital. The glass-ceiling effects are experienced due to socioeconomic inequalities that create barriers which are faced by the entire Muslim community as a collective cultural group

(Edwards, Larson, and Burdsey 2023). The existence of Islamic finance has further obscured the depth of barriers faced by the Muslim communities. Islamic finance is an expensive replication of mainstream financial products. It has had no noticeable impact on improving the financing inclusiveness and Islamic banking products have largely been rejected by the Muslim communities around the world due to same religio-ethical concerns that bar the use of mainstream financial products (Ul-Haq et al. 2022; Riaz, Burton, and Fearfull 2023; Abasimel 2023). Islamic banks are generally liquidity conscious and therefore do not offer products for marginalised and deprived communities (Dzulkepli and Barom 2021). It was after the financial crisis of 2008 when people began to seek alternatives to conventional banks that Islamic financial products gained recognition (Jackson and Khaleel 2021). The United Kingdom, to meet the needs of Muslims to have religiously compliant financial products, introduced Islamic banking (Atkinson 2006). However, Islamic banking has never taken off as an alternative way of financing, and the majority of Muslims do not bank with Islamic banks (Jackson and Khaleel 2021). The soft segregation from the financial world (Islamic finance and mainstream finance) has resulted in lived experiences of the Muslim community that are different from other minority communities (Cheesman and Khanum 2009).

The overall lack of opportunities has resulted in Muslim communities in the United Kingdom experiencing one of the highest levels of deprivation (Hassan 2019) which has resulted in informal charitable giving within the Muslim communities up and down the country (Woodward 2022). The localised informal financial support has organically developed as a community-based solution because of the financial exclusion of the Muslim community in the United Kingdom. The development of informal alternative solutions within the Muslim community is becoming a widespread practice that goes beyond the finance. The study by Edwards, Larson, and Burdsey (2023), Kloek et al. (2013), Metcalf, Burns, and Graefe (2013) and others show that Muslim communities are also creating community- based spatial alternatives to public outdoor spaces, as they experience lack of belonging and identity within the public outdoor spaces. There are quite a few parallels between the Muslim community's disconnection due to cultural values with the formal physical spaces provided by councils and the formal financial offerings by banks, resulting in the development of informal community-based localised spaces and financial solutions.

While the literature and our understanding on the interrelation of religion and entrepreneurship is still developing, many studies have shown the role of religion as a social shaping force that produces entrepreneurial activities through innovative socioeconomic solutions (Kumar et al. 2022; Balog, Baker, and Walker 2014). The mosques also play an integral role in creating an epistemic community of Muslims that works towards generating entrepreneurial activities. The studies show that the social and economic connectivity through the social institutions such as mosques is interconnected with economic progress (Brekke and Larsen 2020; Brekke, Larsen, and Kozaric 2021).

The Muslim community faced with the lack of any viable financing, socioeconomic inequality and financial exclusion is still engaging in entrepreneurial activities. There are localised entrepreneurial networks, informal financing solutions and community-based entrepreneurial guidance that is helping produce entrepreneurs within Muslim communities.

The motivation for entrepreneurship is driven not just by the external constraints, it is also produced by the cultural values engrained within the community. The majority of Muslim migrants, refugees and settlers live the in post-industrial big Scottish cities of Dundee, Edinburgh and Glasgow. Pakistanis amongst them are mostly from the upper socioeconomic classes from Lahore with advanced entrepreneurial foundations (Elshayyal 2017). New settlements and an increase in second- or third- generation Muslims in Scotland has led to the establishment of close-knit communities. Presently, there are no accurate statistics on Muslims in Scotland mostly because it was only as late as 2001 that religion was surveyed in the UK national census, and because the 2021 Scotland's census is yet to be finalised at the time of preparing this report. As of 2011 census, 1.45% of the population in Scotland were recorded as Muslims.

Lack of jobs, low income and an unfavourable labour market has also been suggested as other potential reason why Muslims resort to entrepreneurship activities due to lack of jobs and income (Elshayyal 2017; Rahman 2018). Deficiency of English language skills and absence of recognised educational qualifications also affect the Muslim community (Rath and Swagerman 2011; Ghoul 2017). For others, after migrating, running their own business sometimes seems like the best way to begin to adapt to life in their new country of residence (Shinnar and Zamantılı Nayır 2019). An immigrant who does not have an indefinite leave to remain in the United Kingdom must have a start-up, innovator, or Tier 1 (exceptional talent) visa to start up a business, which gives economic migrants more flexibility in structuring their economic and financial lives.

During the industrial era, Scotland had fewer migrants compared to England due to the high number of factories and industries in England (Deakins, Majmudar, and Paddison 1997). However, currently Scotland is seen as a favourable location due to the accepting nature of Scottish civil life when compared to the hostile narrative of British government. The Scottish society is historically and currently accepting of migrants and other cultures. This is resulting in an increase in the micro level entrepreneurial activities across Scotland (FSB 2019). As of March 2019, there are about 356,550 small businesses in Scotland.[1] Only 2% of the sampled entrepreneurs were from minority ethnic groups which are half that of 2019 (Scottish Government 2020). SMEs are regulated by the Regulatory Reform (Scotland) Act 2014 and the Non-Domestic Rates (Enterprise Areas) Scotland 2016 allows small businesses to receive certain discounts.[2] As part of the Scottish Growth Scheme, small businesses in Scotland can receive financial support in form of DSL[3] Business Finance (microfinance), Business Loans Scotland (BLS), UMi Scotland (loans), Foresight (equity) and Techstart (equity). Most of them have are interest-bearing and therefore systemically bar Muslim entrepreneurs, for instance DSL Business Finance allows entrepreneurs to apply for money between £500–£25,000 individually and a maximum of £100,000 per business.[4] The loans have 6% fixed interest per annum repayable between 1 and 5 years. Similarly, the BLS loan enables business owners to take a loan of £25,000–£100,000 at a fixed interest rate of 6% and can be paid back within 5 years.[5]

This study explores the experiences of Muslim immigrant entrepreneurs living in Scotland. We investigate the socioeconomic dynamics that drive Muslim immigrants towards entrepreneurship, along with examining the issues and challenges faced by the Muslim immigrant entrepreneurs in securing the capital required for financing their venture.

3 | Research Methods

This qualitative study draws on the phenomenological perspective within the social constructivism, as we explore the experiences of Muslim immigrant entrepreneurs living in Scotland. We used semi-structured interviews to collect the data from 26 Muslim immigrant entrepreneurs from the cities of Aberdeen, Dundee, Edinburgh and Glasgow. All our participants were resettled immigrants and owners of small businesses that they have established themselves. While the focus of this study and the data collected is not sensitive, on the request of our participants, we have provided complete anonymity to them within this study. The collected qualitative data was analysed using thematic and narrative analysis. The thematic analysis was used to understand the socioeconomic forces that drive the immigrant Scottish Muslims towards entrepreneurial ventures, while the narrative analysis is used to examine the lived experiences Muslim immigrant entrepreneurs in financing and operating their business ventures.

The semi-structured interviews were conducted in August 2022—March 2023 and our participants are from diverse backgrounds (Pakistan, Nigeria, Libya, Iraq, Palestine) and based in Scotland.[6] All participants in the study were individuals of foreign birth, self-identifying as belonging to the Muslim faith and had established their entrepreneurial endeavours within the Scottish business landscape. The cohort comprised entrepreneurs engaged in diverse sectors, namely, barber shops, phone repairs and sales, food/restaurants, beauty services and clothing enterprises. The semi-structured interviews were designed to elicit comprehensive information from the participants, covering aspects such as their country of origin, duration of residency in Scotland, the financial resources employed for business initiation and ongoing operations, encountered challenges during the establishment phase, and avenues from which they sought financial support. Additional inquiries probed into their hesitations regarding obtaining loans from conventional banking institutions or any other formal entities, their experiences with financial aid, whether governmental or non-governmental, and the perceived obstacles hindering financial backing and capital acquisition within the Muslim community.

4 | Understanding Perspectives of Scottish Muslim Entrepreneurs

Our participants experience similar socioeconomic drivers that have been highlighted within the literature as reasons for engaging in the entrepreneurial activities (Elshayyal 2017; Rahman 2018; Rath and Swagerman 2011; Ghoul 2017). The key themes emerging from our data suggest that the Muslim immigrants in Scotland face unemployment and poverty. They suggest that the stories of other Muslim immigrants who have successfully created enterprises and small business is regularly repeated and quoted within the community. This provides the social and cultural motivation to engage in entrepreneurial activities. The shared understanding of the Muslim community on this has transformed it into an epistemic community, where entrepreneurship as a way of life is regularly discussed. Muslim immigrants see entrepreneurial activities as a way of living their life according to their religious norms while also performing economically. The participants also suggested that community members regularly discuss their entrepreneurial ambitions within the community and are given feedback and direction by the experienced member of the communities. The community also provides access to a network of other entrepreneurs which helps in starting a new venture or solving problems within their current businesses. For instance: finding a cheaper supplier for a product or for increasing the portfolio of products they currently offer. The community also gives them access to an informal market, where they can easily obtain cheap and casual labour if required, while also micro-business opportunities are also shared within the community by the community members. This is because members prefer to do business transactions with each other as compared to someone outside of the community.

All these forces create a narrative of achieving economic independence while simultaneously practicing spirituality through entrepreneurial ventures. The entrepreneurial activities are seen as the only way out of the spatial and non-spatial barriers experienced by the marginalised community of Muslims living in Scotland. Figure 1 shows the five forces that drive the entrepreneurial activities within the Muslim community.

The preponderance of interviewees (75%) relocated to Scotland within the past 15 years. Remarkably, only a solitary participant opted for a conventional loan to initiate their business, whereas the majority relied on personal savings for capital infusion. Noteworthy is a participant who augmented their

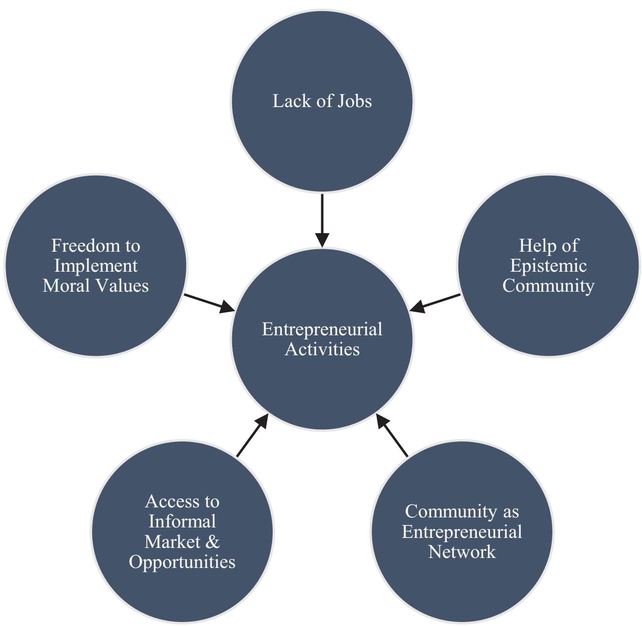

FIGURE 1 | Socioeconomic Forces that Drive Entrepreneurial Activities.

savings by borrowing from family members to support the establishment of their enterprise. Significantly, the sentiment amongst the majority of participants was a reluctance to resort to conventional bank loans, deeming it '*haram*' or religiously prohibited in Islamic teachings (Brekke 2018). This inclination underscores a prevalent avoidance of engagement with traditional banking institutions due to religious considerations within this cohort of Muslim immigrant entrepreneurs. As one of them stated,

> To be honest, anything is interest (sic) is going to over, it is going to *haram* way, I am not taking, I am not touching (sic). I am staying away from, you know.
>
> (MA, interview 6 July 2022)

Several participants faced challenges in the establishment of their businesses, with varying degrees of difficulty reported amongst them. It is important to note that the denial of financial products on the basis of ethnicity, country of origin or religion is legally prohibited (Atkinson 2006). However, despite these legal safeguards, participants still encountered barriers in accessing financial resources.

One participant underscored the challenges by revealing that the only way he secured a loan from a conventional bank was through a broker, as the banks were unwilling to extend a loan to him directly. This highlights an indirect approach necessitated by institutional reluctance, potentially linked to discriminatory practices faced by the entrepreneur based on his background.

Another entrepreneur highlighted the impact of language barriers on her business initiation. Initially impeded by limited proficiency in the English language, she faced challenges attracting customers. Nevertheless, through persistence and word-of-mouth referrals, she eventually garnered a substantial customer base. This narrative underscores the multifaceted challenges faced by Muslim immigrant entrepreneurs, encompassing not only financial barriers but also linguistic and social impediments in the business landscape.

The predominant pattern amongst participants involved a heavy reliance on informal financial sources or a 'bootstrapping' strategy, signifying the utilisation of personal funds exclusively for business financing. Although networking with fellow business owners is acknowledged as a potential avenue for business enhancement and support, drawing on the findings of Deakins, Majmudar, and Paddison (1997), it is noteworthy that none of the participants explicitly leveraged their professional networks to secure financial resources.

Interestingly, while participants did not actively tap into their business networks for funding, some acknowledged the latent potential within these networks. Specifically, participants expressed an awareness that fellow small business owners, particularly those sharing a similar immigrant background, could potentially serve as sources of financial support. This acknowledgment suggests an untapped reservoir of support within the community, indicating a potential avenue for future exploration and collaboration amongst Muslim immigrant entrepreneurs. One participant when asked if she could ask fellow entrepreneurs for a loan noted that:

> No, I won't do anything like that because they have little resources and when you put it in the business, it will never be enough.
>
> (AS, interview 16 July 2022)

An additional avenue mentioned by some participants was seeking financial aid from the Scottish government, particularly in the context of the COVID-19 lockdown. One respondent shared their experience, noting that they received £500 from the Council when initiating their food business, and notably, this support was provided prior to the onset of the pandemic. This underscores the proactive nature of government assistance in fostering entrepreneurship, even preceding the extraordinary circumstances brought about by the pandemic. Furthermore, another participant attested to the financial support received during the COVID-19 lockdown. They stated:

> Yes, during coronavirus, they gave us good money here. From the Scottish government, I received like 10k for each business. More actually, I think first (sic) lockdown we got money and second lockdown we got another. So, we got quite good money from them.
>
> (AA, interview 5 July 2022)

Interestingly, none of the participants explicitly addressed whether the financial aid or grants received from the Scottish government carried an interest component. This omission suggests a potential lack of clarity or awareness amongst the entrepreneurs regarding the financial terms associated with the government assistance.

Conversely, a contrasting viewpoint emerged from another participant who highlighted the necessity of paying interest on the funds provided by the Scottish government. This participant cited the interest component as a decisive factor in declining the grant, reinforcing the significance of financial principles and considerations in the decision-making processes of these Muslim immigrant entrepreneurs. This nuanced perspective sheds light on the diversity of attitudes within the participant group regarding interest-based financial support, further emphasising the need for greater transparency and education on financial terms associated with government aid programmes. He stated that

> They did offer to me, but I never accept it (sic). You know I never take it. Because we have a shop before in England. They are offering (sic) us 50 grand but we not taking it because it is 2.6% is what after one year, interest is going to over.
>
> (SA, interview 19 July 2022)

A notable observation arises in the participants' varied attitudes towards interest payments, depending on whether the funds originate from the government rather than a traditional bank.

This distinction suggests that some individuals may perceive interest associated with government funds differently, potentially viewing it as more acceptable or overlooking it due to its perceived lower magnitude. This nuanced perspective raises questions about the awareness and understanding of financial principles amongst the participant group, particularly in distinguishing between interest from different sources.

Moreover, when participants were questioned about the impact of the lack of access to Islamic-based loans on their businesses, a diverse range of responses emerged. This underscores the need for comprehensive education on Islamic finance and banking for business owners. An interviewee expressed a hypothetical scenario, stating that had she been aware of Islamic banks before initiating her business, she would have preferred obtaining a loan from them. This echoes earlier findings by Brekke, Larsen, and Kozaric (2021) emphasising the significance of knowledge dissemination in the realm of Islamic finance.

Conversely, another participant asserted that, in his view, there was no discernible difference between traditional and Islamic banks, maintaining his stance against taking a loan from either. This disparity in perceptions within the participant group underscores the complexity of attitudes towards financial institutions, highlighting the necessity for tailored educational initiatives that address varying perspectives on Islamic finance. Another stated:

> Probably yes, I don't know. I can tell you something. I know a friend who took a mortgage from Islamic bank, and it was higher, the interest or whatever they call it. It was higher than normal bank.
>
> (FA, interview 17 July 2022)

The study illuminates key facets of the financial landscape for Muslim immigrant entrepreneurs in Scotland. The majority's reliance on personal savings over conventional loans, driven by religious considerations, signifies a distinctive financial approach. Challenges in business initiation, compounded by institutional barriers and language limitations, underscore the multifaceted nature of impediments faced. The study also reveals nuanced attitudes towards financial assistance, particularly government grants, highlighting the need for clearer communication on associated terms. The complexity of perceptions regarding Islamic finance and traditional banking systems calls for tailored educational initiatives. Overall, the findings emphasise the importance of transparent financial information, targeted education and potential collaboration within the Muslim immigrant entrepreneur community.

5 | Policy Implications

The findings of our research contribute to the theory, practice and policy. The theoretical implications are *multifold*: Neoclassical economists engaged a substantial amount of time formulating their theory of choice by using the concept of a utility function, or a curve that links pleasure (thus also price) to quantity (Caplin and Glimcher 2014). In view of this, people—as *homo economicus*—are rational when they make economic decisions based on price and profit maximisation. Conversely, humankind is seen as *Khalifahs*, who have perception as their awareness on the part of the perceiver, as their peculiar characteristic (Asutay 2013).

Hence, this study ties into a paradigm that endeavours to delineate the Islamic entrepreneurship framework and behavioural analysis approaches, combining a multidisciplinary framework to analyse Muslim behaviours within financing scheme preferences. Based on the result, religious value and *Shari'ah* awareness have strongly diminished Muslimpreneurs' choice of formal financing, showing how rationality in neoclassicism becomes irrelevant. However, the evidence also indicates that this is not the most prominent reason entrepreneurs do not choose banking loans. Interestingly, eligibility is found to be the most influential factor affecting loans from official institution preference, and it has a positive relationship.

Oseni, Hassan, and Matri (2013) delineate two distinct avenues for financing small businesses in a *Shariah*-compliant manner. The first approach involves 'medium-term equity investment', utilizing Islamic partnership contracts to cultivate entrepreneurial creativity, facilitate human capital development and provide essential funds. This strategy proves particularly advantageous when conventional bank loans or financing through debt or equity markets face impediments (Fathonih, Anggadwita, and Ibraimi 2019). It also emphasises *Mushārakah* and *Muḍārabah* as prominent venture capital models, recommending adherence to the best practices outlined in the Securities Commission Malaysia's guidelines issued in May 2008 for effective market regulation.

The second recommended option by Oseni, Hassan, and Matri (2013) is Islamic microfinance, applicable when targeting financially marginalised individuals excluded from traditional financing. This approach must adhere to fundamental Islamic finance principles, encompassing profit and loss-sharing modalities, benevolent loans (*Qard-hasan*), charitable endowments (*waqf*), *zakāh*, *Ṣadaqah* (obligatory and voluntary alms), and investment in permissible product classes. The *Mudarabah* model entails entrepreneurs securing trust financing partners rather than credit facilities (Muhammad and bin Ngah 2020). To bolster Islamic banks, government initiatives may include raising awareness about Islamic banking products suitable for small business owners (Tameme and Asutay 2012). Collaborative efforts between the Financial Conduct Authority and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) can provide expertise on available options for entrepreneurs. AAOIFI, as a self-governing global Islamic organisation, specialises in developing accounting, auditing, governance, ethics and Shariah guidelines for Islamic financial service providers (Sain 2013).

The practical implications are *multifold*: It is pertinent to mention that we cannot conclude Muslim choice for informal financing; based on the data obtained, it is found that most Muslimpreneurs use informal financing, notably personal savings, and free-interest loans (*qard al-hasan*) from their relative or friends and small community that they have. There is a very limited practice of partnership or PLS contracts, such as *mudharabah* and *musharakah*. Consequently, a strong engagement of mutual trust is needed; hence, the total transaction volume between investors and entrepreneurs cannot significantly grow because the scope of the society attached is small. This study also found that Muslimpreneurs were confident when they consider both the societal advantages of their business activities and their moral and ethical commitments while managing a company. But unfortunately, the purpose of starting an enterprise does not reflect this—most of them only want to get freedom in the workplace instead of achieving social benefits.

The policy implications are twofold: as argued that numerous factors could affect how Muslimpreneurs run their everyday businesses; therefore, creating a policy to stimulate the Migrant Muslim SME sector must be perceived from various perspectives. First, a shariah-compliant financing scheme is needed in Scotland because religious values were found to be significant factors that prevent Muslims from utilising external financing from official institutions. For example, a zero-interest loan from the government. Second, empowering social capital might be beneficial for the migrant Muslimpreneur—which could be transmitted through mosque community inclusion, such as creating community-based loans. In addition to resolving the issue of funding, the empowerment of the mosque's position also fosters a sense of social responsibility in business operations.

Deakins, Majmudar, and Paddison (1997) propose the establishment of a 'Task Force' comprising experts, business professionals and ethnic community leaders, specifically targeting Muslim immigrants. Drawing from the precedent set by the Treasury's Task Force in February 2005, this entity would create a network and opportunities for Islamic financial structures, such as *Mushārakah* (partnership), Islamic microfinance or *ijarah* (lease), particularly for acquiring properties to support businesses.

Acknowledging the Scottish government's support for ethnic minority entrepreneurs through grants and financial products, considerations for Muslim immigrant entrepreneurs align with the government's commitment to ensuring universal access to financial services (Treasury 2020). In line with the Sustainable Development Goals (Ali, Ali, and Azrag 2020), the potential integration of non-interest schemes, akin to the successful Australian Good Shepherd Microfinance model, should be explored. Rahman (2018) advocates for policy-making that recognises the ethnic diversity of Muslims in Scotland, suggesting the conversion of financial aids into *Mudarabah* models. Additionally, facilitating *Mushārakah* contracts through policies allowing entrepreneurs to requisition equipment or products, which the government purchases and sells with an agreed mark-up, emerges as a pragmatic approach.

6 | Conclusion

This study delves into the financial structures accessible to Muslim immigrant entrepreneurs in Scotland, shedding light on the financial exclusion resulting from the absence of Islamic finance options. Through an in-depth analysis of 16 interviews with entrepreneurs based in Scotland, the research unveils that, to circumvent interest-based loans, these entrepreneurs predominantly rely on personal savings or familial support. Notably, prevalent surveys such as the 2016 Small Business Survey commissioned by the Department of Business, Energy and Industrial Strategy (BEIS), reveal a gap in understanding the barriers faced by minority ethnic groups by lacking specific questions regarding religion when exploring reasons for not seeking external finance.

Contrary to arguments suggesting that variations in interpreting *Sharīʿah* law obviate the need for dedicated Islamic financial products (Atkinson 2006), this research underscores the demand for such products amongst those striving to align with Islamic principles. Challenges arise from differing interpretations of Islamic financial offerings, with some entrepreneurs asserting that Islamic banks are akin to conventional banks, merely renaming their products. Atkinson (2006) warns of potential deception and customer dissatisfaction if the costs associated with Islamic products are perceived as higher, possibly driving customers back to conventional alternatives.

The paper underscores the imperative of establishing robust Islamic financial structures that facilitate growth and foster the inclusion of Muslim immigrant small business owners in the community. Despite the diverse nature of these entrepreneurs, the majority express a preference for *Sharīʿah*-compliant financing methods if officially made available. Diversifying the financing landscape in Scotland is advocated as a means to stimulate competition, ultimately expanding access and benefiting a broader spectrum of residents (Ayadi and Rodkiewicz 2007). This comprehensive approach aligns with the ethnic entrepreneurship/interactive model, recognising access to finance as a pivotal determinant of business success (Rahman 2018).

Conflicts of Interest

The authors declare no conflicts of interest.

Data Availability Statement

The data that support the findings of this study are available on request from the corresponding author. The data are not publicly available due to privacy or ethical restrictions.

Endnotes

[1] https://www.gov.scot/policies/supporting-business/.

[2] ibid.

[3] https://dsl-businessfinance.co.uk/start-up-loans/.

[4] ibid.

[5] https://www.bls.scot/our-loans/start-up-growth-loan/.

[6] Some interviews were conducted face-to-face, and some were conducted over zoom. All interviews were recorded, and it was transcribed into Microsoft word. The interviews were short, and they lasted about 10–15 min.

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