INFORMAL *QARDH AL-H̱ASAN* AS COMMUNAL TRUST AND MORAL ECONOMY: Evidence from Iran

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Abstract: Informal *Qardh al-H̱asan* funds represent an empirically understudied form of Islamic social finance, particularly in marginalized communities where formal financial institutions are inaccessible or perceived as religiously incongruent. This study examines the motivational architecture underlying participation in interest-free lending networks in Saravan, a marginalized district in Iran's Sistan and Baluchistan province. Employing a sequential dual-method design, Exploratory Factor Analysis (EFA) was conducted on survey data from 210 fund participants to identify six latent dimensions: communal trust and social capital; financial accessibility and incentive structures; institutional constraints and governance perceptions; collective solidarity and mutual support; religiosity and spiritual motivation; and personal embeddedness and local financial culture. Bayesian Network Analysis (BNA) subsequently modeled the probabilistic interdependencies among these dimensions. Findings indicate that institutional dissatisfaction and religious conviction jointly activate communal trust, which facilitates financial accessibility, collective solidarity, and local embeddedness. Religiosity does not operate primarily as a direct behavioral determinant; rather, it functions as moral infrastructure through which trust is generated and collective financial action sustained. By demonstrating how religious commitment interacts with institutional perceptions, social capital, and embeddedness, this study extends Institutional, Social Capital, and Embeddedness theories and offers policy implications for culturally and religiously responsive financial inclusion in marginalized communities.

Keywords: *Qardh al-H̱asan*, Islamic social finance, moral economy, financial inclusion, Institutional distrust.

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Introduction

Financial exclusion remains a structural barrier to inclusive development, particularly in remote and religiously conservative communities where formal banking institutions are either absent or perceived as ethically illegitimate. In these contexts, communities do not passively wait for institutional solutions; instead, they build their own financial systems that align with their cultural values, moral principles, and social norms. A notable example of such grassroots financial innovation is the informal *Qardh al-Hasan* system.

The Qur'an and *Hadîts* regard lending as an expression of piety and social solidarity, treating *Qardh al-Hasan* as both a financial tool and a form of worship with spiritual reward. Historically, it has served as Islam's ethical counter to *Riba* (usury), aiming to reduce income disparities and to include vulnerable populations in finance. Today, its significance extends beyond theological idealism; it operates as a practical, community-based financial system in places where formal banking consistently fails to resonate with local values or meet basic needs.

This dynamic is clearly evident in Saravan, a district in southeastern Iran's Sistan and Baluchistan province. It is one of the country's most socioeconomically disadvantaged areas. The region faces high unemployment and underdeveloped infrastructure. The majority of the local population, who mostly follow the Hanafi school of Islamic jurisprudence, consider conventional interest-based banking haram.[1] This creates a profound tension: urgent capital needs collide with the ethical impossibility of accessing mainstream finance without compromising religious integrity. In response, residents have developed two complementary informal models, the Besti rotating savings and credit association and the need-based mutual aid fund, both operating without interest, collateral, or formal documentation, sustained instead by kinship ties, communal trust, and reputational accountability.

Globally, informal financial mechanisms, from credit associations in West Africa to hui groups in rural China, flourish precisely where formal institutions are absent or distrusted. Research shows that up to 67% of rural Chinese borrowers prefer informal sources over banks, driven by cultural trust rather than financial illiteracy.[2] In Bangladesh and Indonesia, Islamic microfinance, including *Qardh al-Hasan*, has gained considerable traction by reconciling financial access with religious ethics.[3] While institutional models like Baitu al-Mâl wa at-Tamwîl attract scholarly attention, spontaneous kinship-based *Qardh al-Hasan* networks in Iran remain underexamined. Despite informal practice, organized *Qardh al-Hasan* funds in Iran date back to at least the mid-2000s.[4] The motivational and structural drivers of participation in these systems have not been systematically investigated. Existing literature tends to treat religiosity, trust, and institutional distrust as isolated predictors of financial behavior, relying on linear models that structurally obscure their dynamic interplay.[5] Such approaches fail to capture the layered nature of moral economies, where macro-level voids, meso-level structures, and micro-level dispositions influence collective financial action.

To address this gap, the present study proposes an integrated theoretical framework that synthesizes Institutional Theory,[6] Social Capital Theory,[7] and Embeddedness Theory.[8] Institutional Theory explains informal finance as a response to the perceived illegitimacy of formal banking, rooted in Saravan's structural and ethical realities. Social Capital Theory shows how reciprocity, norms, and reputation replace legal enforcement, enabling interest-free lending without formal contracts. Embeddedness Theory states that financial decisions are socially shaped by identity, kinship, and community.

This study explores three questions: the motivational dimensions behind participation in Saravan's informal *Qardh al-Hasan* funds; how religiosity, constraints, and trust influence financial behavior; and how these dynamics relate to theories of adaptation, social capital, and embeddedness. It uses Exploratory Factor Analysis to identify motivational structures and Bayesian Network Analysis to examine dependencies.

This study makes four interconnected contributions to the field. Methodologically, it is among the first to apply Bayesian Network Analysis to examine informal *Qardh al-Hasan* participation, enabling the identification of non-linear, probabilistic relationships among motivational factors that traditional regression methods often miss. Theoretically, it moves beyond single-framework studies by integrating Institutional Theory, Social Capital Theory, and Embeddedness Theory into a single empirical model. This approach redefines religiosity not merely as a background variable but as a fundamental moral institution that shapes the conditions necessary for financial cooperation.

Empirically, it offers a systematic investigation of fully informal, kinship-driven *Qardh al-Hasan* networks in Iran, a context conspicuously absent from the existing literature, which is dominated by Southeast Asian institutionalized models, and set within a Hanafi jurisprudential framework marked by peripheral geopolitics, state neglect, and deep institutional distrust. Conceptually, it challenges prevailing assumptions in Islamic finance research by showing that religiosity does not directly drive financial behavior but is mediated by communal trust, and that both trust and embeddedness are dynamic outcomes of systemic pressures rather than static preconditions. Together, these contributions reframe informal *Qardh al-Hasan* not as a symptom of underdevelopment but as a resilient, ethically grounded moral economy whose internal logic warrants both scholarly recognition and sustained policy engagement.

Method

This study explores the motivations behind participation in informal *Qardh al-Hasan* funds in Saravan. We used a dual-method approach: Exploratory Factor Analysis (EFA) to find underlying dimensions, and Bayesian Network Analysis (BNA) to model their causal relationships, shifting from description to systemic explanation.

Primary data were collected through a structured questionnaire administered to 210 active participants across Saravan's 42 known neighborhood-level *Qardh al-Hasan* funds. The sampling frame was constructed by cross-referencing local funds and interviewing fund coordinators, yielding an estimated population of 1,200 individuals. To ensure representativeness, we applied stratified random sampling by fund size (small: <10 members, medium: 10–20 members, and large: >20 members) and neighborhood settlement density, drawing proportionally from each stratum. The minimum required sample size was calculated using Cochran's formula ($p = 0.5$, $e = 0.06$, $z = 1.96$).

The instrument was developed through an iterative, context-sensitive process. We began with 42 candidate items adapted from established scales on Islamic finance, social capital, and institutional trust. A pilot test with 30 participants refined ambiguous or redundant phrasing, resulting in a final set of 26 items measured on a five-point Likert scale (1 = strongly disagree to 5 = strongly agree). Cronbach's alpha exceeded 0.80 for all emerging dimensions, indicating strong internal consistency.

For the EFA, we retained only complete cases ($n = 210$). Sampling adequacy was confirmed by a Kaiser–Meyer–Olkin (KMO), and Bartlett's test of sphericity was highly significant, supporting factorability. We applied Principal Axis Factoring (PAF) analysis with Varimax rotation, retaining factors with eigenvalues greater than 1.0 and suppressing loadings with values below 0.40. Both the scree plot and parallel analysis (1,000 replications) supported a six-factor solution, explaining 67.58% of the total variance.

In the second stage, we employed Bayesian Network Analysis (BNA) to model the probabilistic dependencies among these six factors. We used the continuous factor scores from the EFA as inputs, discretizing them into "Low" and "High" states via a median split to meet BNA requirements. Sensitivity checks using tertile splits confirmed the robustness of this approach. The network's structure was learned using the hill-climbing algorithm with the Bayesian Information Criterion (BIC) as the optimization metric.

However, recognizing the risk of spurious connections in a modest sample, we supplemented the data-driven model with local expertise. A panel of 15 stakeholders, including fund managers, religious scholars, and fund members, reviewed the initial network structure. They flagged any relationships that seemed theoretically implausible or inconsistent with on-the-ground reality. This process resulted in only minor refinements, such as the removal of one weakly supported arc, while the core structure remained firmly data-driven. This hybrid design ensures that the final model is both statistically rigorous and culturally intelligible. Conditional Probability Tables (CPTs) were estimated using maximum-likelihood estimation with Dirichlet priors, and model performance was validated via 10-fold cross-validation, yielding a predictive accuracy of 84.7%.

Results and Discussion

Results

Table 1 summarizes the demographic profile of the 210 respondents. The sample predominantly consisted of married, educated individuals, with 51 percent holding a bachelor's degree and 67.1 percent employed in public or semi-public sectors.

Table 1. Demographic Characteristics of Respondents

Variable	Category	Frequency	Percentage (%)
Education	PhD	11	5.2
	Master's	50	23.8
	Bachelor	77	36.7
	College	19	9
	Diploma	53	25.2
Occupation	Employee	50	23.8
	Self-employed	121	57.6
	Unemployed	28	13.3
	Student	11	5.2
Marital status	Married	187	89
	Single	23	11

Exploratory Factor Analysis (EFA) Results

An exploratory factor analysis was conducted using SPSS to identify the latent dimensions shaping participation in Saravan's informal *Qardh al-H̲asan* funds. Prior to extraction, diagnostic tests were used to evaluate the suitability of the data for factor analysis.

The Kaiser confirmed sampling adequacy with a Meyer–Olkin (KMO) of 0.89, indicating a sufficient correlation pattern for factor extraction. Bartlett's test was significant ($\div^2 = 3123.203$, $p < 0.001$), showing the correlation matrix had adequate shared variance for factor analysis.

Given the objective of uncovering latent constructs rather than reducing data dimensionality, factors were extracted using Principal Axis Factoring (PAF). A Varimax rotation was applied to enhance interpretability and achieve a more transparent, simple structure.

The extraction process identified six factors with eigenvalues greater than 1, collectively accounting for 67.58% of the common variance. Table 2 presents the eigenvalues and variance contributions. The scree plot (Figure 1) exhibits a clear inflection point after the sixth factor, supporting the retention of six latent dimensions.

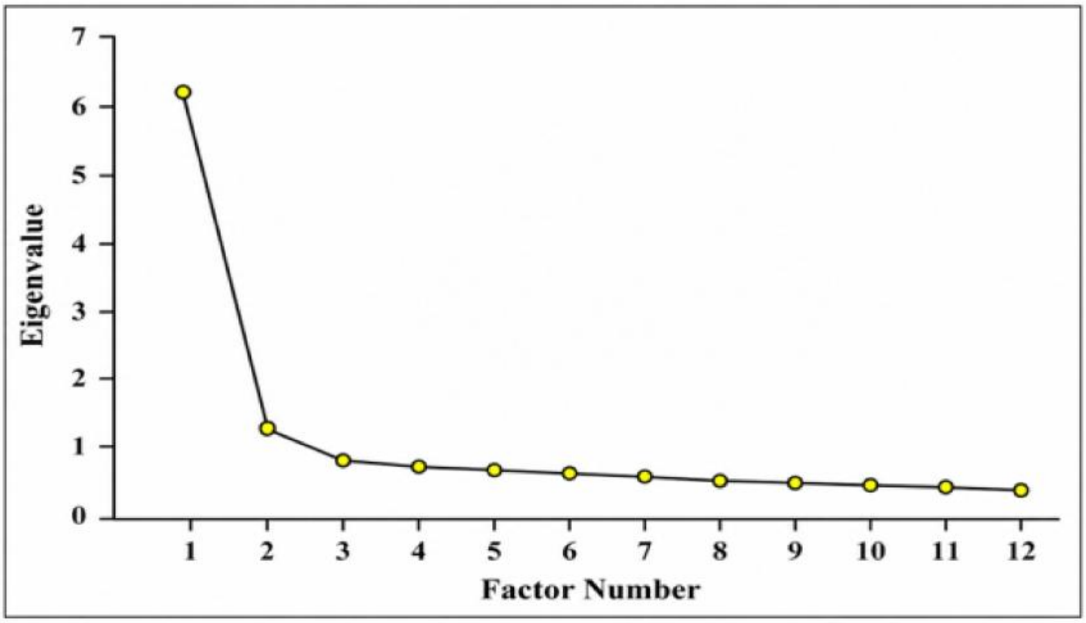

Figure 1. Scree plot of the study

Table. 2 Percentage of variance and specific factor values influencing participation in *Qardh al-Hasan* funds

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	7.735	25.800	25.800	7.735	25.800	25.800	4.165	13.883	13.883
2	4.541	15.150	40.950	4.541	15.150	40.950	3.541	11.803	25.686
3	2.888	9.630	50.580	2.888	9.630	50.580	3.088	10.293	35.979
4	2.106	7.020	57.600	2.106	7.020	57.600	2.706	9.020	44.999
5	1.716	5.720	63.320	1.716	5.720	63.320	2.316	7.720	52.719
6	1.277	4.260	67.580	1.277	4.260	67.580	2.022	6.859	67.580
7	0.982	3.273	70.853						
8	0.923	3.077	73.930						
9	0.875	2.917	76.847						
10	0.831	2.770	79.617						
11	0.784	2.613	82.230						

12	0.742	2.473	84.703
13	0.698	2.327	87.030
14	0.651	2.170	89.200
15	0.607	2.023	91.223
16	0.563	1.877	93.100
17	0.518	1.727	94.827
18	0.475	1.583	96.410
19	0.431	1.437	97.847
20	0.389	1.297	99.144
21	0.256	0.853	99.997
22	0.001	0.003	100.000

Classification of variables into factors based on factor load

Factor naming focuses on aligning labels with the shared meaning of variables that show strong factor loadings within each factor. This acts as a conceptual umbrella for the related variables. Naturally, variables with higher factor loadings are more influential in the naming process and significantly shape the label that best captures the factor's underlying concept.

Table 3 demonstrates consideration for theoretical and experimental texts in this field, along with adherence to naming principles and practices. The extracted factors are designated as follows: the first factor, Communal Trust and Social Capital, accounted for 25.800 percent of the total variance, highlighting the centrality of interpersonal trust and mutual credibility in facilitating participation in informal Islamic lending networks. The remaining factors, Financial Accessibility and Incentive Structure (15.150%), Institutional Constraints and Governance Perceptions (9.630%), Collective Solidarity and Mutual Support (7.020%), Religiosity and Spiritual Motivation (5.720%), and Personal Embeddedness and Local Financial Culture (4.260%), together explained an additional 41.78 percent of variance, confirming the multidimensional nature of participation drivers. Table 3 lists the significant variables loading under each factor.

Table 3. Variables related to the reasons for inclination to informal Qard-al-Hasana funds

Priority	Factor name	Variables	Factor load
First	Communal Trust and Social Capital	Trust among fund members	0.775
		Awareness of each other's problems and a sense of mutual responsibility and cooperation	0.753
		Shared management of the fund by members	0.721
		Financial support for family members and fellow participants	0.697
		Members' commitment to paying their share	0.677
		Ease and comfort of fund operations	0.606
Second	Financial Accessibility and Incentive Structure	Absence of late-payment penalties	0.723
		No requirement for guarantor or bank check	0.716
		Zero-interest, fee-free loans	0.685
		Possibility of using funds for economic activity	0.632
		Low monthly membership contribution	0.589
		Substitute for formal savings mechanisms	0.525
Third	Institutional Constraints and Governance Perceptions	Lack of low-interest microcredit facilities in the formal financial system	0.820
		Failure of the banking system to gain public trust	0.765
		High bureaucratic barriers to bank loans	0.647
		Transparency of how these funds operate	0.615
		Economic instability and unpredictability of national economic conditions necessitate access to credit	0.538
Fourth	Collective Solidarity and Mutual Support	Ability to exit the fund easily	0.810
		Mutual support among members when an individual is unable to pay monthly contributions	0.659
		Collective problem-solving through group deliberation	0.619
Fifth	Religiosity and Spiritual Motivation	Religious beliefs	0.830
		Encouragement from religious institutions to establish such funds	0.686
		Belief that the conventional banking system is based on Riba (usury)	0.553

Sixth	Personal Embeddedness and Local Financial Culture	Successful local examples and effective performance of such funds in the region	0.680
		Familiarity among all fund members	0.575
		Lack of savings culture in the region and preference for informal savings mechanisms	0.571

Bayesian Network Analysis (BNA) Results

To extend insights from Exploratory Factor Analysis (EFA), the study employs Bayesian Network Analysis (BNA) to examine how the six motivational dimensions interact within the informal *Qardh al-Hasan* system in Saravan. While EFA identifies underlying drivers, the BNA provides a structured representation of the probabilistic relationships among them. The model indicates which factors tend to precede others, which operate as intermediating nodes, and which emerge more frequently as downstream expressions. These links reflect conditional statistical associations shaped by the data and expert judgments rather than verified causal effects.

Guided by the integrated theoretical framework, the six EFA-derived factors were represented as latent nodes in a Directed Acyclic Graph (DAG):

- F1: Communal Trust and Social Capital (CUL)
- F2: Financial Accessibility and Incentive Structure (ECO)
- F3: Institutional Constraints and Governance Perceptions (INS)
- F4: Collective Solidarity and Mutual Support (SOL)
- F5: Religiosity and Spiritual Motivation (REL)
- F6: Personal Embeddedness and Local Financial Culture (IND)

The network structure was developed through a combination of empirical learning and structured expert consultation. Two Delphi rounds were conducted. In the first round, experts independently reviewed the preliminary structure, commenting on the plausibility of edges and suggesting removals or modifications where associations appeared inconsistent with field knowledge. The second round aimed to reach convergence on points of disagreement. Although formal numerical consensus measures were not applied, the iterative process substantially reduced divergence, and the final structure reflected the areas where expert opinions stabilized.

The model underwent an additional plausibility assessment using a hold-out subset of expert evaluations (20 percent; n = 5). To approximate predictive consistency, a classification exercise was constructed from expert ratings, and the comparison yielded an AUC of 0.84 (95% CI: 0.80–0.88). While this metric does not validate causal adequacy, it offers a reasonable indication that the model's conditional patterns align with expert expectations. Sensitivity checks introducing ±5 percent perturbations in the Conditional Probability Tables (CPTs) showed robust stability across the major edges, particularly for REL '! CUL and INS '! ECO.

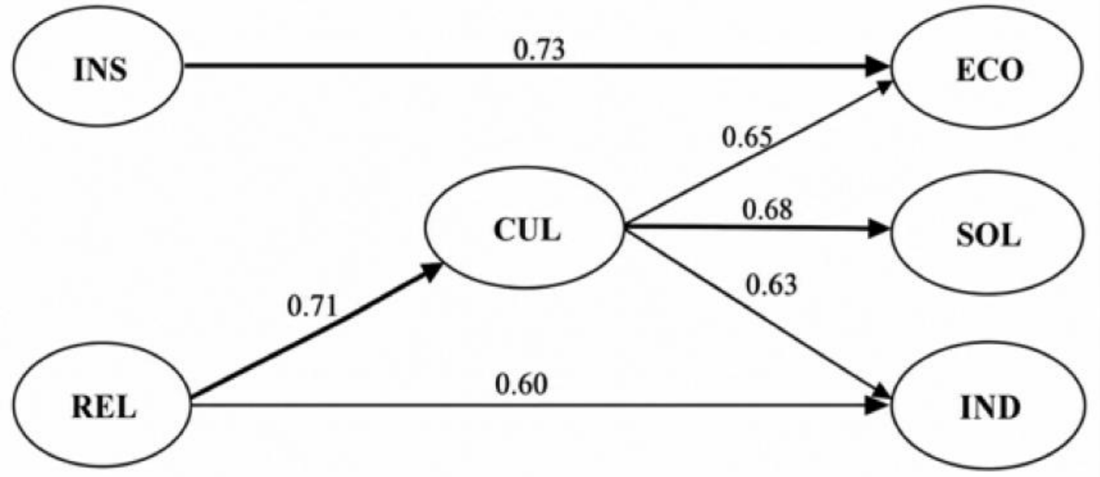

Figure 2. Bayesian Network of Motivational Factors in Informal *Qardh al-Hasan* Participation

As shown in Figure 2, Institutional Constraints (INS) and Religiosity (REL) appear as influential antecedent nodes within the network. Communal Trust (CUL) occupies a central intermediary position, linking institutional pressures and moral orientations to downstream motivational patterns—financial accessibility (ECO), solidarity (SOL), and embeddedness (IND). These directional edges represent tendencies in conditional probability rather than causal flows.

Table 4 reports the strongest directional associations, defined by conditional probabilities above 0.60. The most pronounced association is INS '! ECO (P = 0.73), indicating that higher levels of perceived institutional barriers are associated with a greater likelihood of valuing interest-free and accessible financial options. This pattern suggests that institutional dissatisfaction frequently aligns with preferences for informal, low-barrier lending systems.

Table 4. Strongest Probabilistic Dependencies Among Motivational Factors in the Bayesian Network

Parent Node	**Child Node**	**Direction**	**Conditional Probability P (Chil = High | Parent = High)**
F3: Institutional Constraints (INS)	**F2: Financial Accessibility (ECO)**	**INS → ECO**	**0.73**
F5: Religiosity (REL)	**F1: Communal Trust (CUL)**	**REL → CUL**	**0.71**

F1: Communal Trust (CUL)	**F4: Solidarity (SOL)**	**CUL → SOL**	**0.68**
F1: Communal Trust (CUL)	**F2: Financial Accessibility (ECO)**	**CUL → ECO**	**0.65**
F1: Communal Trust (CUL)	**F6: Embeddedness (IND)**	**CUL → IND**	**0.63**
F5: Religiosity (REL)	**F6: Embeddedness (IND)**	**REL → IND**	**0.60**

Note: “High” denotes severe presence (>66th percentile) of the latent factor. Probabilities derived from expert-elicited CPTs (2025).

A similarly robust association is observed between REL and CUL (P = 0.71). Here, stronger religiosity tends to correspond with heightened interpersonal trust, reinforcing the idea that shared belief systems support cooperative norms within the community.

Communal trust shows notable downstream associations: CUL ’! SOL (P = 0.68), CUL ’! ECO (P = 0.65), and CUL ’! IND (P = 0.63). These patterns indicate that trust-rich settings often exhibit stronger tendencies toward mutual support, convenient access to financial services, and deeper cultural participation. The REL ’! IND edge (P = 0.60) further suggests that religiosity is associated with stronger personal embeddedness, even when trust is not mediating. This indicates that even isolated individuals may contribute to *Qardh al-Hasan* funds as an act of worship, not merely as a form of reciprocity.

Table 5. Marginal and Posterior Probabilities of Participation Factors

Factor (Node)	**Marginal Probability P(Factor = High)**	**Posterior Probability P(Factor = High | INS = High)**	**Posterior Probability P(Factor = High | REL = High)**
F1: Communal Trust and Social Capital (CUL)	**0.42**	**0.58**	**0.71**
F2: Financial Accessibility (ECO)	**0.38**	**0.73**	**0.45**
F3: Institutional Constraints (INS)	**0.64**	**—**	**0.52**
F4: Collective Solidarity (SOL)	**0.35**	**0.5**	**0.63**
F5: Religiosity (REL)	**0.61**	**0.49**	**—**
F6: Personal Embeddedness (IND)	**0.4**	**0.55**	**0.6**

The marginal and conditional probabilities clarify how shifts in key antecedent nodes affect the likelihood that downstream nodes are high. For instance, the probability that CUL is high rises from 0.42 to 0.58 given high INS, and to 0.71 given high REL. Financial accessibility increases from 0.38 to 0.73 when INS is high. These patterns do not reflect causal responses; instead, they illustrate how motivational dimensions cluster under specific contextual conditions.

Discussion

The factor analysis found six dimensions influencing participation in Saravan's informal *Qardh al-Hasan* funds, explaining 67.58% of the variance. These dimensions show a structured motivational landscape in which religious values, institutional experiences, social cohesion, and local financial culture interact to sustain the system. Bayesian Network Analysis clarified how these dimensions interrelate probabilistically. The discussion interprets each dimension within Saravan's socioeconomic and religious context, explains how they connect, and situates the findings within broader literature.

Communal Trust and Social Capital

The first and most influential dimension (25.80% of variance) constitutes the socio-moral foundation of Saravan's *Qardh al-Hasan* networks, a finding consistent with Sanrego and Rusydiana's analysis of trust-based Islamic finance.[9] This factor's strongest loading derived from interpersonal trust (loading = 0.775), which anchors the dimension empirically and reflects kinship networks rather than institutional relationships. Encompassing mutual awareness, collective responsibility, and shared fund management, this dimension reflects a social order rooted in Hanafi religious identity and communal duty. Where formal financial institutions are marked by bureaucratic distance, trust and reputation effectively substitute for institutional credentials, enabling lending and repayment without legal contracts.

This finding aligns with Putnam's view of social capital as vital for cooperation but is reinterpreted through a local Islamic lens. Here, trust is a moral covenant rooted in shared Hanafi identity, turning financial duties into acts of faith. Management of these funds reflects Islamic principles of *syûrâ* (consultation) and *ukhuwwah* (brotherhood). The lack of bureaucratic barriers boosts accessibility and solidarity. Mosque-based Islamic cooperatives show that community trust is best formed when religious institutions act as intermediaries, translating Islamic economic principles into practice, with commitment, integrity, and accountability as key to sustainable community finance.[10] Communal trust serves as an adaptive moral economy, sustaining financial flows through shared faith and assurance. It extends Putnam's thesis by showing how community bonds serve as the primary architecture and guarantor of financial stability in weak governance.

Financial Accessibility and Incentive Structure

The second dimension (15.15% of variance) explains the economic reasoning for participation. In Saravan's informal economy—where income from remittances, agriculture, and trade is unpredictable—such flexibility is vital for managing cash flows and social duties. This economic logic is deeply linked to its ethical basis.

The prohibition of *ribâ* reinforces religious adherence, while the lack of penalties fosters trust and mutual responsibility, with high repayment rates based on moral accountability rather than legal enforcement. Research on Malaysian millennials' acceptance of *Qardh al-Hasan* shows that faith and the *maqâshid* consumer index, not altruism alone, are key factors, indicating that zero-interest benevolent lending is valued more as a faith-aligned financial solution than just charity.[11]

By removing collateral, interest, and rigid terms, these funds democratize credit in line with Islamic values, making borrowing an act of empowerment aligned with *'adl* (justice) and *mashlahah* (public benefit). This microfinance and mutual aid system supports marginalized groups, like micro-entrepreneurs and women, to pursue economic activity without compromising faith.

Institutional Constraints and Governance Perceptions

The third dimension (9.63% of variance) highlights how systemic failures and ethics influence participation. In Baluchistan, formal banks are seen as bureaucratically distant, culturally inaccessible, and ethically compromised due to reliance on interest, leading to avoidance as an economic and religious choice. Similar patterns are observed in Mauritania, where location and religious activity affect inclusion, showing that in Muslim-majority areas, formal financial exclusion results from religious, geographic, and economic factors.[12]

This pattern aligns with North's institutional theory, in which institutional failure fosters the emergence of informal alternatives.[13] In Saravan, however, this process acquires religious reinforcement, producing a faith-driven institutional substitution in which governance shifts from external regulation to collective moral responsibility. Hanafi observes that Islamic banks frequently avoid profit-loss-sharing arrangements not from principled opposition but because monitoring is difficult in weak legal environments.[14] Saravan's informal system bypasses this limit by embedding finance in trust-based social networks. Evidence shows that Shariah compliance alone doesn't guarantee Islamic banking adoption; attitude, Islamic values, and convenience are key factors,[15] implying that formal institutions seeking to compete with informal alternatives must reconfigure both their ethical credibility and operational accessibility. Participation in *Qardh al-Hasan* thus reflects neither ignorance nor backwardness but a deliberate response to institutions perceived as conflicting with both efficiency and religious norms.

Collective Solidarity and Mutual Support

The fourth dimension (7.02% of variance) reflects networks' role as a social safety net, including penalty-free exit, aid during hardship, and conflict resolution. This flexibility and accountability turn funds into local welfare institutions fitting Saravan's economy, where irregular income from seasonal work and cross-border trade requires adaptability. The option to withdraw without penalty addresses economic uncertainty, and mutual support based on Islamic principles of *ta'âwun* and *ukhuwwah* strengthens financial cooperation as a religious duty.

Research on integrated Islamic social finance demonstrates that when instruments such as *Qardh al-Hasan*, zakat, and waqf are deployed jointly rather than in isolation, the effectiveness of poverty alleviation increases by approximately 12%, highlighting the welfare-generating power of systemic integration over fragmented application.[16] This evidence strengthens the case that the solidarity function observed in Saravan's networks is not merely supplementary but constitutive, representing a structured welfare architecture that redistributes vulnerability across trusted networks and cushions shocks through social reciprocity rather than penalizing default. Collective deliberation (*syûrâ*) over disputes reinforces procedural legitimacy, demonstrating how financial sustainability in marginalized contexts can emerge from embedded ethics of care and mutual accountability.

Religiosity and Spiritual Motivation

The fifth dimension (5.72% of variance) underpins the system through personal faith and institutional religious support, a finding consistent with earlier work on Islamic financial behavior.[17] For Saravan's Hanafi community, participating in *Qardh al-Hasan* funds goes beyond economics to become worship, fulfilling spiritual and communal duties.[18] This creates a spiritual contract where financial conduct is guided by divine oversight and religious accountability, not legal enforcement. Religious institutions reinforce this through sermons and endorsements, conferring social prestige and moral legitimacy, similar to mosque-based Islamic cooperatives where economic education turns community awareness into behavioral commitment.[19]

The behavioral role of religiosity, however, is not simply direct. Research from Uganda demonstrates that attitude significantly mediates the relationship between religiosity and intention to adopt Islamic banking, meaning that religiosity shapes behavioral intention not as a standalone driver but by first forming a positive attitudinal disposition toward Islamic financial arrangements.[20] This mediated pathway closely parallels the BNA finding in the present study: religiosity does not directly activate financial participation but operates through an intermediate construct, communal trust in this context, that translates moral conviction into coordinated financial action. Similarly, evidence from Pakistani farmers confirms that religiosity and familial leadership jointly motivate behavioral intention to use Islamic finance, while perceived behavioral control negatively affects actual behavior, highlighting the complex, socially embedded nature of faith-based financial decision-making.[21] The internalization of these faith-based principles yields high compliance without formal penalties, distinguishing *Qardh al-Hasan* from conventional microcredit by its orientation toward public good rather than profit. This accords with findings confirming the association between religiosity and Islamic financial behavior,[22] and extends them by demonstrating that religiosity's influence is structurally mediated rather than behaviorally direct.

Furthermore, recent work on sustainable Islamic banking demonstrates that Prophetic Ethics *(Dîn)* positively influence financial outcomes both directly and indirectly through mediating social and environmental dimensions,[23] suggesting that the moral infrastructure argument advanced here has broader application: religiosity functions as a system-level ethical force that shapes financial behavior through multiple mediating pathways rather than through a single direct mechanism. Religiosity thus provides both the legitimizing framework and the behavioral discipline necessary for the system's endurance amid institutional weakness, effectively transforming routine financial transactions into collective moral practice.

Personal Embeddedness and Local Financial Culture

The sixth dimension (4.26% of variance) demonstrates that Saravan's financial practices are rooted in social relationships, encompassing member familiarity, local success stories, and habitual fund use. This indicates that financial behavior derives from kinship and trust rather than impersonal market logic, supporting Granovetter's embeddedness theory, which emphasizes that economic transactions are mediated by social relationships and cultural norms.[24] This embeddedness isn't a sign of economic deficiency but a rational response to scarcity and instability. When formal contracts are mistrusted and incomes fluctuate, communities depend on social capital, kinship, reputation, and faith as economic infrastructure, reducing transaction costs and maintaining financial flow through moral assurance rather than bureaucracy. Mosque-based cooperatives support this, showing that embeddedness grows as communities become familiar with Islamic economic principles via ongoing social and religious interactions—a gradual normalization rather than sudden adoption.[25]

The six-factor structure indicates that participation in *Qardh al-Hasan* stems from a moral-economic system where religious values, social trust, and constraints interact. Religiosity and communal trust create a moral-cultural framework that sees interest-free lending as a form of piety, elevating it beyond mere transactions.

The intermediate layer shows how institutions' exclusion and financial obstacles turn moral beliefs into actions. Gaps in formal banking, bureaucracy, interest systems, and accessibility create a void filled by trust-based alternatives. Flexible funds, absence of collateral, and small contributions offer ethical access to capital, turning financial exclusion into faith-driven self-reliance.

The outer layer of Collective Solidarity and Personal Embeddedness provides adaptive mechanisms that support the system during poverty and weak governance. Through risk-sharing, flexible participation, and community problem-solving, these networks serve as local welfare institutions. Financial practices within kinship networks and culture, where familiarity replaces formal verification, exemplify Granovetter's socially situated economic action.

This framework views Baluchistan's informal economy as catering to material and spiritual needs, driven by economic necessity and supported by religious trust. Without formal finance, *Qardh al-Hasan* redistributes resources, enforces discipline, and preserves community through faith-based governance, showing that morals can support resilience when institutions fail.

These findings resonate with established research in other Muslim-majority peripheries. Studies in rural Indonesia.[26] Similarly, document how informal Islamic microfinance thrives where religious faith reinforces social cohesion amid weak institutional trust. Saravan's case, however, possesses distinctive characteristics: Its peripheral geopolitics, historical marginalization, and underdevelopment have increased dependence on these networks, turning them from voluntary ethical choices into vital survival systems. *Qardh al-Hasan* funds go beyond moral finance, serving as integrated adaptive mechanisms within the daily socio-religious fabric.

The results further corroborate Turvey and Kong,[27] Ashraf,[28] and Bagheri et al.,[29] who identify trust and reciprocity as functional substitutes for formal contracts in informal lending. They also align with Ibrahim and Ibrahim[30] and Sahara[31] in emphasizing the pivotal role of moral trust in sustaining *Qardh al-Hasan* arrangements. However, a minor divergence emerges from Qadri et al.[32] and Abidin et al.,[33] as a subset of respondents expressed hesitation due to the absence of formal regulation. This nuance highlights a tension between ethical legitimacy and security, underscoring Saravan's hybrid nature in informal finance.

The Mechanisms Linking the Dimensions: Insights from the Bayesian Network

While the EFA establishes what motivates participation, the BNA reveals how these motivations interact, moving the analysis from description to mechanism. The strongest pathway, INS to ECO ($P = 0.73$), demonstrates that institutional dissatisfaction functions as the primary activating condition for valuing interest-free alternatives, refining North's framework by showing that in religiously conservative peripheries institutional voids are not merely structural but ethical: formal banking is rejected because it is perceived as morally illegitimate, not only because it is inaccessible.[34] Evidence from Mauritania confirms this dual dynamic: religious activity and financial cost jointly determine exclusion from formal systems, suggesting that the ethical-institutional barrier operates consistently across Muslim-majority peripheral contexts.[35]

The model's most significant theoretical implication concerns religiosity. Conventional Islamic finance research often treats religiosity as a direct predictor of financial behavior; the BNA complicates this by revealing no direct path from Religiosity to Financial Accessibility. Instead, religiosity operates through Communal Trust (REL to CUL, P = 0.71), which subsequently enables financial behavior (CUL to ECO, P = 0.65). This mediated structure is corroborated by evidence from Uganda, where attitude, itself shaped by religiosity, mediates the relationship between religious conviction and Islamic banking intention,[36] and from Pakistani farmers, where religiosity and social factors shape behavioral intention through attitudinal and normative pathways rather than direct behavioral triggers.[37] Religiosity thus functions not as an individual predictor but as moral infrastructure, a system-level condition constructing the trust, identity, and norms through which cooperation becomes possible. This reframing is reinforced by evidence from Indonesia's zakat sector, where religiosity alone fails to drive formal participation in the absence of institutional trust,[38] and from Aceh, where commitment depends not on symbolic religious branding but on whether operations genuinely embody *amânah* and *ta'âwun*.[39] The finding that Prophetic Ethics translate into financial outcomes through mediating social dimensions[40] further supports this architecture, suggesting that moral conviction functions as a systemic infrastructure across diverse Islamic finance contexts.

The findings further reposition trust itself. Whereas Putnam treats trust as a foundational resource, the BNA reveals it as a dynamic outcome, a central mediator shaped jointly by institutional pressure and religious conviction, then channeling these forces toward solidarity, accessibility, and embeddedness. Likewise, Personal Embeddedness functions exclusively as a downstream node (CUL to IND, P = 0.63; REL to IND, P = 0.60), driving no other factor, which demonstrates that embeddedness is not a pre-existing trait but a learned outcome of sustained participation, refining Granovetter's thesis. The REL to IND association additionally suggests that even relatively isolated individuals may participate as an act of worship rather than reciprocity. Finally, the absence of feedback loops, notably no ECO to INS pathway, indicates that once institutional distrust is established, it remains stable and self-reinforcing, implying that behavioral interventions alone cannot reshape entrenched institutional perceptions and that structural reform of the formal sector is required.

Taken together, the findings advance an integrated account in which Institutional, Social Capital, and Embeddedness theories operate not as competing explanations but as interdependent layers of a single moral economy: institutional dissatisfaction and religious conviction jointly activate communal trust, which in turn enables collective participation and cultivates cultural embeddedness. The integrated Islamic social finance framework demonstrates that coordinated deployment of ISF instruments is significantly more effective than isolated application, further corroborating this integration logic and suggesting that the moral economy's resilience derives precisely from the structural interdependence of its motivational dimensions rather than from any single driver.

Conclusion

This study finds that informal *Qardh al-Hasan* in Saravan is a moral economy shaped by institutional failure, religious conviction, and social capital. Using EFA and BNA, the analysis reveals the dynamic interplay among faith, distrust, and trust, showing how these elements form a network that influences the system.

The study contributes to Islamic social finance and informal economies by: first, reinterpreting religiosity as moral infrastructure that influences financial participation indirectly via communal trust, challenging the view that religiosity directly boosts engagement; second, repositioning trust and embeddedness as outcomes of participation, refining frameworks of Putnam and Granovetter; third, proposing an integrated theoretical model where Institutional, Social Capital, and Embeddedness theories are interconnected parts of a single adaptive system. These insights position *Qardh al-Hasan* not as a sign of underdevelopment but as a resilient, ethical financial system deserving scholarly and policy focus.

The findings have implications for advancing financial inclusion in conservative, fragile contexts. Institutional distrust, evident in the gap between informal participation and formal perceptions, suggests that traditional interventions such as financial literacy are unlikely to succeed on their own, because the real issue is institutional legitimacy, not knowledge. Three strategies follow. First, formal financial institutions should offer Shariah-compliant, collateral-free microcredit through trusted community spaces such as mosques and local councils, rather than through branch networks. Second, religious leaders and fund coordinators, already acting as financial intermediaries, should be formally engaged as partners in outreach, using their moral authority to build trust. Third, instead of replacing informal *Qardh al-Hasan* networks, policymakers should implement light-touch frameworks that keep their ethical and communal character while adding safeguards to address trust concerns, without undermining their foundation.

Policymakers should recognize that formal banking in areas like Saravan succeeds only when linked to local moral and social structures. Enhancing community funds with transparency, support, and Sharia-compliant partnerships fosters inclusive finance. Formal institutions can learn from these networks, which thrive on legitimacy, trust, and collective responsibility—traits often missing in modern finance. Saravan shows that financial inclusion is moral and economic. Faith and solidarity offer stability beyond bureaucracy and collateral.

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