Enhancing Financial Inclusion in Nigeria: The Role of Islamic Finance

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Abstract **- Financial inclusion helps in reducing extreme poverty, supporting inclusive development, and enhancing the well-being of the people. As a result, policy makers, regulators and development institutions have made financial inclusion a priority in promoting economic growth and reducing poverty and inequality. One important channel used in promoting access to finance among the poor is Islamic finance. This paper, therefore, reviewed theory and literature in order to synthesize the role of Islamic finance in enhancing financial inclusion. The review revealed that Islamic finance helps in ensuring financial inclusion through the provision of Shariah-compliant, risk-sharing financial products and services. In addition, the Islamic social finance products such as Zakah, Sadaqah and Waqaf compliments the commercial aspects. Consequently, Islamic finance helps in reducing voluntary financial exclusion and extreme poverty. The paper also highlighted the role of government in promoting financial inclusion through the development of appropriate regulatory and supervisory frameworks, financial inclusion strategies, protecting consumers and advancing financial literacy. The paper recommends the sustained application of risk-sharing financial products by Islamic financial institutions in Nigeria. In addition, Islamic banks should complement their financing products with Zakah, Sadaqah and Waqaf. Furthermore, government should sustain its efforts towards consumer education and financial literacy.**

Keywords – financial inclusion, Islamic finance, Islamic financial institutions, Islamic social finance

I. INTRODUCTION

Financial inclusion has in recent years been one of the major issues attracting attention from governments, the private sector and development agencies. Financial inclusion is defined as the proportion of individuals and firms that have access to, and use financial services offered by formal financial institutions (Beck & Demirgüç-Kunt, 2008; Naceur, Barajas, & Massara, 2015; World Bank, 2014). This includes the availability, accessibility and usage of financial services, which comprises operating an account for savings, having access to credit, owning an insurance policy, or a mortgage facility. Sarma (2008) defined it "as a process that ensures the ease of access, availability and usage of the formal financial system for all members of an economy", while the World Bank (2008) sees it as the absence of barriers in the use of financial services. Others such as Cámara & Tuesta (2014) defined financial inclusion as a financial system "that maximizes usage and access, while minimizing involuntary financial exclusion ... and that the degree of financial inclusion is determined by three dimensions: usage, barriers and access". The Central Bank of Nigeria (2018) considers access to a broad range of financial services at affordable cost to suit the need of all users, as the achievement of financial inclusion.

An inclusive financial system helps in reducing extreme poverty, increasing shared prosperity and supporting inclusive and sustainable development (World Bank, 2014). It also supports effective allocation of resources, enhances the efficiency and well-being of the people by promoting saving practices, and limits the growth of informal sources of credit that are usually exploitative (Sarma, 2008). The main concern of financial inclusion, therefore, is to provide access to an array of financial services - credit, savings, insurance and money transfers – through a variety of financial institutions that will allow that poor and low-income improve their living conditions and escape poverty (Duvendack & Mader, 2019).

The absence of financial inclusion (otherwise known as financial exclusion) is a lack of access to financial services by individuals or communities due to their geographic location, economic situation or any other 'anomalous' social conditions which prevent people from fully participating in the economic and social structures of mainstream communities' (Sain, Rahman, & Khanam, 2013). Beck & Demirgüç-Kunt (2008) and Mohieldin, Iqbal, Rostom, & Fu (2012) considers the causes of financial exclusion to be either involuntary or voluntary. Involuntarily exclusion arises due to limitations on the part of the users such as low income or high risk. It could also arise due to discrimination from the financial institutions against the users of financial services based on their social, religious or ethnic background. Voluntary exclusion, on the other hand, involves individuals and firms that do not require these services or those that exclude themselves because of religious or cultural reasons.

The distinction between voluntary and involuntary financial exclusion is of high importance to policymakers, in the sense that involuntary exclusion indicates the presence of obstacles to financial inclusion, which can be addressed by formulating and implementing the right policies. To eliminate poverty and income inequality, it is recognized the world over that policies should be designed and implemented in order to bring those excluded into the formal financial system. Where present, financial exclusion promotes income inequality, social instability and negatively impacts on efforts to promote social development (Wang & Guan, 2017).

Consequently, policy makers, regulators and development institutions have made financial inclusion a priority in promoting economic growth and reducing poverty and inequality. This was illustrated by the declaration of the year 2005, as the International year of microcredit (which is the easiest and most potent way of providing financial services to the poor. Furthermore, in 2009, the United Nations Development Program (UNDP) initiated a project aimed at boosting financial inclusion among the poor by developing appropriate financial products and services to cater for their needs.

One important channel through which governments promote the use of formal financial services among the poor and underprivileged is Islamic finance. By providing access to Shariah-compliant financial products and services, Islamic finance plays a significant role in bringing into the formal financial system, the segments of the society that is excluded from conventional financial institutions based on religious and ethical reasons. This is done through the use of risk-sharing Shariah-compliant financial products and services, and the redistributive elements of Islamic finance - *Zakat*[1], *Waqaf*[2], *Sadaqah*[3] and *Qard al-Hasan*[4] (Mohieldin et al. 2012). In addition, Abdu, Jibir, Abdullahi, & Rabi'u (2018) established that households in countries with Islamic services are more likely to be financially included in Organization of Islamic Conference (OIC) countries compared to those without Islamic financial services.

Another tool of enhancing financial inclusion is the Islamic microfinance. Defined as the provision of financial services among the low income based on Islamic Sharia, Islamic microfinance operates based on Islamic jurisprudence which prohibits dealing in interest, the avoidance of gharar (ambiguity), participating in risk-sharing activities, and ensuring the welfare of all members of the society (Nabi, Islam, Bakar, & Nabi, 2017). It uses partnership, trade and lease-based financing structures that ends in changing ownership of physical assets (Rhule, 2016). It is, therefore, the Sharia-compliant way of providing financing to those that could not access mainstream financial services to help them startup a new business, or maintain their existing business (Hassan, 2015). This combines the advantages of conventional microfinance in reaching the poor and underprivileged, and that of Islamic finance which potentially combines Islamic social finance, known for caring for the poor, and that of microfinance, which provides financial access to the marginalized segments of the society (Hersi, 2018).

Over the years, significant progress has been recorded globally in providing access to financial services among adults. For instance, in 2018, Demirgüç-Kunt, Klapper, Dorothe, Saniya, & Jake (2018) analyzed data from 148 countries on how the adult population save, borrow, make payments, and manage risk. The analysis showed that over the period of five years (2012 – 2017), the number of adults owning a bank account with formal financial institutions had increased to 69 per cent from 51 per cent. Within the period, 515 million adults opened a bank account with a financial institution or a mobile money provider during the period. In spite of the progress made, wide variations in the use of formal financial services across regions, income groups and individual characteristics, still remain. For instance, among the estimated 1.7 billion adults that remained unbanked, majority of them live in developing countries, with around half residing in just seven countries – Bangladesh, China, India, Indonesia, Mexico, Nigeria and Pakistan (Demirgüç-Kunt, Klapper, Dorothe, et al., 2018).

The need to enhance access to finance in Nigeria led to the development of the first National Financial Inclusion Strategy (NFIS) in 2012. This is due to the need to boost access to credit (through the promotion of savings and investment), and bring more adults into the formal financial system. Targets were set around the strategy to enhance financial inclusion by improving access to financial services, encouraging usage, as well as the provision of affordable and appropriate products to all segments of the society. Other objectives include increasing financial literacy, consumer protection and focus on gender issues (Central Bank of Nigeria, 2012). In addition, non-interest (Islamic) banking was

[1] Compulsory alms given once in a year by the wealthy to a select category of people and courses

[2] Endowment – through the donation of real (non-perishable) properties, including cash, for philanthropic purposes

[3] Voluntary social spending

[4] Benevolent or interest-free loan

introduced in 2010, and the first full-fledged Islamic bank started operations in 2012. The objective was to broaden financial inclusion by providing alternative financial products and services into the banking industry. Specifically, it was aimed at addressing the financial needs of the Muslims, as well as other individuals that require alternative / ethical forms of financing. This is due to the believe that some Muslims voluntarily exclude themselves from accessing conventional financial products and services because they are interest-based (Kama & Adigun 2013).

The objective of this paper is to review theory and literature in order to synthesize the role of Islamic finance in enhancing financial inclusion. The paper is structured in seven sections. Section two reviewed literature on the concept of Islamic finance, while section three discussed the barriers to, and the role of government in boosting financial inclusion. Section four reviewed the evolution of Islamic finance in Nigeria, while section five discussed the state of financial inclusion in Nigeria. Section six reviewed empirical studies on the role of Islamic finance in enhancing financial inclusion. Section seven concluded the paper.

II. ISLAMIC FINANCE AND FINANCIAL INCLUSION

Islamic finance is founded based on the prohibition of *Riba* (loosely translated as interest). Citing Az-Zuhayli (2006), Rahim Abdul Rahman (2010) stated that *Riba* can be divided into two categories – *riba al-nasiah* (credit riba) and *riba al-fadl* (surplus riba). While *riba al-nasiah* is bringing fixed increments in loans after an interval of time or extension of time over the fixed period, *riba al-fadl* is the sale of similar items with a disparity in the amount by exchanging similar items in excess of the quantity by the borrower to the lender. It also exists if there is delay in the delivery of goods offered. Therefore, Islamic finance plays a significant role in providing financial access, especially to those excluded from conventional financial institutions using its risk-sharing Shariah-compliant financial products and services, and the redistributive elements of Islamic finance - Zakat, Waqaf, Sadaqah and Qard al-Hasan.

Mohieldin et al. (2012) argued that Islamic banking and social finance instruments have the potentials of enhancing financial inclusion in OIC countries through promoting risk-sharing contracts by Islamic banks. These include *Murabaha*, *Musharaka*, and *Mudaraba* contracts. Others include *Ijara*, *Salam*, and *Istisnah*. These will be complimented by the instruments of wealth re-distribution – *Zakah*, *Sadaqah*, *Qard-al-Hasan* and *Waqf*. In addition, Abdu et al. (2018) established that households in countries with Islamic services are more likely to be financially included in OIC countries compared to those without Islamic financial services.

While Islamic finance help in providing financial access to those looking for Shariah-compliant financial products, Islamic microfinance, specifically targets the segment of the society that are excluded from formal financial services because of their inability to access commercial banking services due to cost, lack of collateral, or other excluding factors. Islamic microfinance is defined as the provision of financial services among the low income based on Islamic Sharia. It operates based on Islamic jurisprudence which prohibits dealing in interest, the avoidance of gharar, participating in risk-sharing activities, and ensuring the welfare of all members of the society (Nabi et al. 2017). It thus uses partnership, trade and lease-based financing structures that ends in changing ownership of physical assets Rhule, Karice (2016). It is therefore the Sharia-compliant way of providing financing to those that could not access mainstream financial services to help them startup a new business, or maintain their existing business (Hassan, 2015).

According to Ali (2015) and Hassan (2015), Islamic microfinance is beyond the provision of financial inclusion. In addition to that, it is expected to also provide social inclusion through the twin tools of lending and *Zakah*. This is expected to make Islamic microfinance more effective. In addition, contrary to the conventional banks that provide loans based on interest, Islamic banks facilitates the transaction by acting as a trader, thereby participating fully in the transaction (Tahir, 2007). This attracts investors and entrepreneurs, especially from the informal sector that have been alienated from conventional banking system.

III. BARRIERS TO FINANCIAL INCLUSION AND THE ROLE OF GOVERNMENT

There are many factors that act as barriers to financial inclusion among individuals and communities. These include problems with access, conditions, prices, marketing or self-exclusion due to negative experiences or perceptions (Sarma, 2008); poor education, low income and lack of jobs (Ampudia & Ehrmann, 2017); absence of appropriate financial products available to a group of people based on their beliefs (Naceur et al., 2015; Yorulmaz, 2018); and poverty, cost of transaction, distance, lack of documentation, distrust of the financial system, use of another person's account and religious concerns (Demirgüç-Kunt, Klapper, Dorothe, et al., 2018).

In a cross-country study, the (World Bank, 2008) listed other barriers to financial inclusion. These included illiteracy, lack of physical access, discrimination (based on ethnicity, religion, etc.); lack of collateral; lack of proper documentation; and cost of maintaining a bank account. To improve access to finance, the study suggested financial system institutional reform, introduction of technology and the establishment of credit registries. These would help secure property rights, expand access by overcoming physical barriers, ensure debt recovery, reduce transaction cost, boost bank lending as well as establish and track credit histories.

Consequently, governments at national and sub-national levels play a big role in removing these barriers in order to promote financial inclusion. The role of government is not only in ensuring the increase in the number of people with access to formal financial services, but to ensure that this is done in a 'responsible' manner. World Bank (2013) cautioned that 'responsible' financial inclusion is one that enhance access to financial services through ways that are safe for the consumers, which enables their participation through knowledge and choice. This can only be achieved through government policies that ensures fairness, and industry players that operate within a code of conduct which guarantees transparency and fair treatment of customers. These will provide a solid foundation for financial inclusion built on a solid consumer protection. Thus, the role of government in financial inclusion include (World Bank, 2013):

- **(i) Rule-making:** Government determines what efforts, by whom and when - to be taken in order to achieve financial inclusion objectives. It also ensures the enabling environment for innovative financial inclusive business models as well as stable macroeconomic conditions, and appropriate regulatory and supervisory frameworks. Main participants in the business of policy making include the executive, legislature and the regulator (usually the central bank).
- **(ii) Infrastructure support:** Depending on the depth of an economy's financial system, governments play different roles to provide or support the provision of infrastructure. These include front-end infrastructure like post offices, automated teller machines, point-of-sales devises, retail agents, etc.; back-end infrastructure such as automated clearing houses, real-time gross settlement systems, retail payment switches and cash distribution networks. Other supporting infrastructure include credit bureau, deposit insurance system and land registry system. Non-financial infrastructure required to aid financial inclusion include road network, electricity and national identification system.
- **(iii) Promote savings:** Savings promotion to enhance financial inclusion can be encouraged by government through moving its payment of wages, pensions and social security onto easily accessible electronic channels.
- **(iv) Consumer protection:** Due to the increasing complexities in financial products and services, government must ensure the protection of consumers in order to boost financial inclusion, especially among the low-income groups. To effectively protect consumers, government should ensure transparency (broad disclosure of product terms and conditions, including pricing, fees, and default provisions), fair treatment (including ethical staff behaviour, sale of appropriate products and acceptable marketing, among others) and effective recourse (for effective complaints management through clearly specified rules and regulations).
- **(v) Building financial capability:** This is done by promoting financial literacy, which is the ability to understand basic information about financial products and services, as well as how to apply this knowledge to save, borrow, and spend in a way that will ensure stable cash flows and manage financial risks.
- **(vi) Developing financial inclusion strategies:** Some governments go to the extent of developing national financial inclusion strategies with quantitative targets and set dates to achieve them. The strategy includes bringing a diverse range of stakeholders to agree a shared vision. At some instances, priority sectors and lending targets are set. These sectors usually include agriculture, small and medium enterprises, housing, mortgage and micro-insurance.

IV. EVOLUTION OF ISLAMIC FINANCE IN NIGERIA

Efforts at establishing non-interest (Islamic) financial institutions (NIFIs) in Nigeria dated back to the 1990s when two licenses were issued in 1992 under the Bank and Other Financial Institutions Act (BOFIA) 24 & 25 of 1991. But it was until 1999 when the then Habib Nigeria Bank (Limited) opened a non-interest banking window. However, a major turning point in the development of Islamic banking in Nigeria, was in June 2011, when the Central Bank of Nigeria issued the Framework for the Regulation and Supervision of institutions offering non-interest financial services under its new banking model. NIFIs were classified under specialized banks and are to operate in accordance with principles and rules of Islamic financial jurisprudence. Under the Framework, licensing requirements, financial modes and instruments and issues relating to corporate governance were spelt out. Other aspects detailed out were prudential requirements, risk management, among others (Central Bank of Nigeria, 2011).

As a result, the first full-fledged non-interest (Islamic) bank - Jaiz Bank – which was set-up as a special purpose vehicle (SPV) in 2003/2004 was established. The Bank commenced operations in January 2012 as a regional bank, with three branches in Abuja, Kaduna and Kano. In 2016, it upgraded to a national bank operating license, thus, allowing it to operate in all the 36 states in Nigeria. In addition, another bank - Taj Bank - was licensed in July 2019 by the Central Bank of Nigeria (CBN) to commence the operations as a full-fledged Islamic bank. There are also two conventional banks – Sterling and SunTrust – offering non-interest banking products and services through non-interest banking windows.

In 2017, the CBN released the Guidelines on the Regulation and Supervision of Non-interest (Islamic) Microfinance Banks (NIMFBs). The aim is to provide a level playing field between conventional and NIMFBs. In addition, it will also offer the public an alternative system of microfinance that will operate based on profit and loss sharing principles. This is expected to enhance financial inclusion by bringing into the formal sector, individuals, communities and corporations that may not be captured by conventional MFBs. The target clients of these banks are the poor and low-income, unbanked and the under-served as well as other microenterprises (Central Bank of Nigeria, 2017).

Under the new Framework, Islamic MFBs are to transact their business using Shariah-compliant financing modes and instruments. They are also required to comply with the established non-interest deposit insurance scheme and anti-money laundering / combating the financing of terrorism (AML/CFT) laws and regulations. Currently, there are three Islamic Microfinance Banks in Nigeria. These are Tijarah MFB, I-Care MFB and Halal Credit Microfinance Bank. However, over the years, the Islamic finance sub-sector in Nigeria had not been very vibrant. For instance, at the end of second quarter 2018, the non-interest (Islamic) banking total domestic assets stood at a mere 0.3 per cent of the banking sector, same as the second quarter, 2017. (Islamic Financial Services Board, 2019).

V. FINANCIAL INCLUSION IN NIGERIA

Financial inclusion could be considered as an engine that could help boost growth and income inequality by providing access to finance for consumption and investment to the poor, as well as insurance against shocks (Sethy, 2016). To eliminate poverty and income inequality, it is recognized world over that policies should be designed and implemented in order to bring those excluded into the formal financial system. Where present, financial exclusion promotes income inequality, social instability and efforts promote social development (Wang & Guan, 2017). As a result, policy makers, regulators and development institutions across the world have made financial inclusion a priority.

In Nigeria, the first National Financial Inclusion Strategy (NFIS) was developed in 2012 by the Federal Government. The strategy, which was adopted by the Central Bank of Nigeria (CBN), was built around four strategic areas. These are: agency banking, mobile banking/mobile payments, linking models and client empowerment. The strategy set targets aimed at enhancing financial inclusion through promoting access to financial services, encouraging usage, and the provision of affordable and appropriate products. Others include increasing financial literacy, consumer protection and focus on gender issues (Central Bank of Nigeria, 2012).

Prior to the development of the NFIS, efforts were made to improve access to financial services, especially among the poor and low-income population. For instance, in 2005, the Regulatory and Supervisory Framework for Microfinance was issued by the CBN. The Framework is to "enhance the provision of diversified microfinance services on a long-term, sustainable basis for the poor and low-income groups". In 2010, the Central Bank of Nigeria (CBN) approved the framework for the operations of non-interest (Islamic) banks in Nigeria. This was aimed at reducing the high level of financial exclusion among the Muslim population, especially in the Northern part of Nigeria. This was due the desire of the majority of the Muslim to have non-interest (Islamic) financial institutions that will to serve their financial needs. Another reason was the believe that some Muslims voluntarily exclude themselves from accessing conventional financial products and services because they are interest-based (Kama & Adigun, 2013). Furthermore, in 2017, the CBN issued the Guidelines on the Regulation and Supervision of Non-interest (Islamic) Microfinance Banks (NIMFBs) in Nigeria. This was aimed at providing a level playing field between conventional and non-interest microfinance banks. The policy was expected to enhance financial inclusion by targeting the poor and low-income yet to be integrated into the formal financial system through either the conventional commercial or microfinance banks (Central Bank of Nigeria, 2017).

All these were expected to increase the level of financial inclusion in Nigeria, especially in areas that are highly excluded, such as the North-West and North-East of Nigeria. Over the period of the implementation of these policies and programs, some successes were recorded. However, challenges still remain. The level of financial inclusion, measured by the number of adults using formal financial services in Nigeria, grew from 36.3 per cent in 2010 to 43 per cent in 2012, and further to 48.6 per cent in 2014. This level was maintained in 2016 (Central Bank of Nigeria, 2018). By 2018, the number of adults using formal financial services rose marginally to 48.7 per cent, while 14.5 per cent were being served informally (Central Bank of Nigeria, 2019). The balance of 36.8 per cent remained completely excluded from having access to financial services.

In terms of channels of access to financial services, mixed results were recorded. The percentage adult population with payment and savings products rose from 22.0% and 24.0% in 2010 to 36.2% and 32.6% in 2018, respectively. This may not be considered a success given that they fall far below the targets of 63.2% and 52.5%, respectively, set in the NFIS. The progress recorded in credit, insurance and pension products is even worse. Between 2010 and 1028, there was a 3.5, 1.0 and 3.5 percentage points increase in the percentage of adults with credit, insurance and pension products in the country. Conversely, the number of microfinance bank branches per 100,000 adults declined from 2.9 in 2010 to 0.9 in 2018. All these in the face of increasing adult population that require formal financial services.

In addition, this level of financial exclusion in Nigeria (36.6%) is high when compared with some sub-Saharan African countries. For instance, the level of exclusion was 7 per cent in South Africa (in 2018), 17 per cent in Kenya (in 2016), 22 per cent in Uganda (in 2017), and 22 per cent in Namibia (in 2017). This placed Nigeria among the countries that stagnated in terms of achieving financial inclusion. In fact, according to (Demirgüç-Kunt et al. 2018), about half of those lacking access to formal finance (using account ownership as proxy) in developing countries reside in seven countries, among which is Nigeria, where four per cent of those financially excluded globally reside.

Another challenge is the regional disparity in the level of financial inclusion in Nigeria. Data had shown that the Northern part of Nigeria is behind its Southern counterpart in the use of formal financial services. In Northern Nigeria, the North-West and North-East, which are predominantly Muslim, are the least in accessing formal financial services. Results of a survey conducted by EFInA in 2014 in the 36 states of the Nigerian federation and the Federal Capital Territory (FCT), showed that of the 12 most financially excluded states, ten are from the North-West and North-East, while only 2 states from the South of Nigeria are among the top half. As a result, the Survey recommended that specific attention should be given to the North-West and North-East of Nigeria by both regulators and financial service providers in order to address this challenge (EFInA, 2015). By 2016, the disparity still remained with 70 per cent of the people in the north-west, and 62 per cent from the north-east being excluded from the use of financial services in 2016 (Central Bank of Nigeria, 2018).

In trying to address these challenges, the CBN revised the NFIS in order to come up with workable solutions. The Revised NFIS identified three major barriers to financial inclusion in Nigeria. These are: affordability (64.9%), institutional exclusion (38.4%) and attitudes and perceptions (23.6%). Other barriers constitute the remaining 4.5% (Central Bank of Nigeria, 2019). The effect of this is the increasing level of poverty and income inequality between the Northern and Southern part of Nigeria. To address these challenges, the Revised NFIS intends to leverage on the digital financial services to further drive the financial inclusion rate. This will be through the expansion of the agent network, and driving Government to People and People to Government payments. In addition, the CBN had licensed a National Microfinance Bank (NMFB) that will leverage on the physical infrastructure of the Nigerian Postal Services (NIPOST) locations in all the local government headquarters in Nigeria. The bank will serve as an avenue to extend credit to micro- small- and medium-enterprises (MSMEs).

However, one major draw-back of the reviewed policy was its inability to come up with clear policy on addressing the issue of attitudes and perceptions, especially among the Muslim population that desires non-interest banking products. This is despite the inability of conventional financial institutions to achieve the credit penetration target under the NFIS due to the absence of collateral on the part of the borrowers, and the high level of interest rates. The licensing of non-interest financial institutions (commercial and microfinance banks) by the CBN is aimed at addressing some of these challenges. Yet, there is the need for a conscious effort to promote these institutions in order to serve the purpose of their creation.

VI. ROLE OF ISLAMIC FINANCE IN ENHANCING FINANCIAL INCLUSION FROM THE PREVIOUS LITERATURE

Several studies were carried out to assess the role of Islamic financial institutions on financial inclusion. These studies covered both Islamic banks and Islamic microfinance banks. This is because all these financial institutions contribute in one way or the other to the enhancement of financial inclusion. For Islamic banks, their contribution is two-fold. On the one hand, they provide Shariah-compliant products to those excluded based on religious reasons. In addition, they also provide access to additional products and services to clients that had hitherto been restricted to the use of (few) conventional products based on necessity. This is what Tahiri Jouti (2018) referred to as financial migration.

For Islamic microfinance banks, they target the segment of the society that are excluded from formal financial services because of their inability to access commercial banking services due to cost, lack of collateral, or other excluding factors. Furthermore, they also provide social inclusion through the tools of Islamic social finance such as *Sadaqah*, *Waqaf* and *Zakah*. Consequently, their role is also two-fold. In addition to enhancing financial inclusion, they also help in poverty reduction. The role of enhancing financial inclusion is through the provision of Shariah-compliant financial microfinance services, while that of poverty reduction is through microcredit and other aspects of social finance – which are also elements of financial inclusion.

A study by Mohieldin et al. (2012) assessed the potentials of Islamic finance in enhancing financial inclusion in OIC countries. The paper argued that Islamic banking and social finance instruments have the potentials of enhancing financial inclusion in Organization of Islamic Conference (OIC) countries through promoting risk-sharing contracts by Islamic banks. These include *Murabaha*, *Musharaka*, and *Mudaraba* contracts. Others include *Ijara*, *Salam*, and *Istisnah*. These will be complimented by the instruments of wealth re-distribution – *Zakah*, *Sadaqah*, *Qard-al-Hasan* and *Waqf*.

Another study by Abdu, Jibir, Abdullahi, & Rabi'u (2018) employed the Probit, Tobit Regression models and Juhn-Murphy-Pierce decomposition techniques to analyze World Bank's Global Financial inclusion index dataset to examine whether Islamic finance contributes in enhancing financial inclusion in Sub-Saharan African (SSA) countries. The study found that Islamic banking and finance improves access to formal financial services in some Organization of Islamic Conference (OIC) countries in SSA. Though the study found that this is a necessary but not a sufficient condition. To ensure efficient utilization of Islamic banks, the study recommended that policy makers should promote financial literacy, as well as ensure that Islamic financial institutions are strategically placed where their services are in high demand.

Demirguc-Kunt, Klapper, & Randall (2013) used dataset from the Global Financial Inclusion and Gallup World Poll Database to study the relationship between Islamic finance and financial inclusion. The study found that Muslims are significantly less likely than non-Muslims to have an account and save at a formal financial institution, when controlling for other individual- and country-level characteristics. In addition, Muslims are more likely to report religion as a barrier to account ownership, though this result appears to be mainly driven by respondents in Sub-Saharan Africa. Using a separate but smaller database of 5,000 adults in five Middle Eastern and North African (MENA) countries, the study found evidence of strong hypothetical preference for Sharia-compliant products, but very little use of them. Also, there were significant variations in awareness and usage of Sharia-compliant banking products across the region; while income and access to information channels were found to be important predictors of these behaviors.

T. Muhammad, Dauda, & Mamman (2018) examined the barriers to financial inclusion in Nigeria, and the extent to which Islamic banking system helps in boosting financial inclusion, with specific reference to the introduction of Islamic banking and the emergence of Jaiz Bank plc. The study used a multinomial regression model to analyze data collected through a survey. One of the major findings of the study was that religion plays an important role in financial exclusion in the sub-region, by serving as a 'key barrier to financial inclusion'. In addition, data revealed that the absence of Shariah-compliant financial products and services helped in entrenching financial exclusion in North-eastern Nigeria, which is predominantly Muslim. This invariably means that the presence of Islamic finance should enhance financial inclusion.

Ferdousi (2015) used structural equation modelling to empirically test the role of innovation and microfinance loan on entrepreneurship development in Bangladesh. The study used five latent variables: competitive intensity, loan size, lending groups, general education and business experience. Results indicated that loan product is a significant predictor of income, but do not predict innovation, which ensures the long-term survival of businesses. Other findings of the study include obstacle to the sustainability of the businesses which include limited access to financial service, knowledge regarding market, as well as technologies. The study therefore recommended that for greater sustainability of microbusinesses, there is the need for the provision of basic training on business skills, opportunity identification and product differentiation. Also, microfinance institutions should improve the level of screening on borrowers, and more resources should be made available to clients that possess business knowledge and ideas that could create more job opportunities to the people. The results of the study indicated the role of Islamic finance on entrepreneurship development through access to microfinance and financial literacy – both aspects of financial inclusion.

Using the Decomposed Theory of Planned Behavior (DTPB) with ten constructs, as a research framework, Maulana, Razak, & Adeyemi (2018a) examined the factors affecting Muslim customers' participation in *Baitul Maal wat Tamwil* (BMT), otherwise known as Islamic microfinance in Indonesia. The study used self-administered questionnaires to collect data from 434 Islamic microfinance respondents in East Java region. The study employed the Structural Equation Modeling (SEM) for data analysis. Results showed a positive and significant influence between PBC and participating in Islamic microfinance. However, the relationship between Attitude and participation in Islamic microfinance, as well as that of subjective norms and participation in Islamic microfinance were found to be insignificant. Thus, out of the three main constructs of the DTPB, only one was found significant. Results further revealed that Islamic microfinance clients believe that the microfinance services on offer were affordable, efficient, while their staff were competent. The affordability and efficiency of microfinance services in the study area showed that the main objective of these institutions of providing affordable financial services to the poor is being realized.

Ginanjar & Kassim (2019) assessed the role of Islamic values and financial policies of Islamic Microfinance Institutions (IMFIs) in poverty alleviation, using Baitulmaal wa Tamwil (BMT), otherwise known as Islamic microfinance Indonesia as a case study. Employing Partial Least Squares (PLS) to analyze data collected through survey questionnaires, using five latent variables: four exogenous variables and one endogenous variable. These are the role of IMFIs in community development; financial education; Islamic values; financial policies; and poverty reduction. The study found that financial education plays a significant role in poverty alleviation. This is because it enables the poor to make informed financial decision, as well as manage financial risks. The study also found that Islamic values and financial policies impact positively on poverty reduction, thus confirming the role of Islamic social finance in poverty alleviation through financial inclusion. The study recommended financial education and strengthening Islamic values of IMFIs in achieving the objective of poverty reduction. This is because financial literacy, which is an aspect of financial inclusion, helps consumers of financial services make informed decisions and manage financial risks, which ultimately aid poverty alleviation.

Abdul-Majeed Alaro & Alalubosa (2019) explored the option of adopting Shariah-compliant microfinance as an option in tackling the menace of poverty in Nigeria. The paper reviewed four Islamic finance products – *Maharajah*, *Mudaraba*, *Zakat* and *Waqaf*. After thoroughly analyzing extensive literature and country experiences on the use of these products, results indicated that the reviewed Shariah-compliant tools were viable and sustainable options for microfinance projects in Nigeria. The paper thus suggested that Islamic banks should consider the integration of microfinance tools in their efforts towards promoting financial inclusion, while sourcing their funding through government financing, *Zakat*, *Waqaf* donations and *Sadaqah*, among others. These findings showed that Islamic microfinance products – both commercial and social – help in promoting financial inclusion and poverty reduction.

A. D. Muhammad, Haneef, & Mohammed (2016) examined the applicability and acceptance of an Islamic micro-investment model (IMIM) among users of in Kano State, Nigeria. The model was developed based on genuine partnership using the Theory of Reasoned Action (TRA). This was to over-come the challenges of conventional microfinance that is based on interest, as well as challenges facing Islamic microfinance themselves, which include cost of capital, human resource, and poverty alleviation, through the integration of Waqaf. Using SEM to analyze data from 500 respondents, the study found that attitude directly and positively influences behavioral intention to use Islamic micro investment instrument. However, a direct relationship between Subjective norm and Behavioral intention was found to be insignificant. But an indirect relationship was found between SN and Behavioral Intention, through Attitude. Also, Behavioral intention was found to influence Attitude towards the use of Islamic micro investment instrument. The results, according to the authors, showed that Attitude is the most important predictor of intention to use IMI instrument. They thus suggested that intervention policy should focus more on Attitude in order to ensure the use of the instruments. The focus of the study – Islamic micro-investment model – indicates the need for Shariah-compliant investment opportunities.

VII. CONCLUSION

The role of financial inclusion on poverty reduction, increasing shared prosperity, supporting economic growth and inclusive sustainable development, as well as in promoting saving practices effective allocation of resources cannot be over-emphasized. Literature reviewed in this paper revealed that Islamic finance helps in ensuring financial inclusion through the provision of Shariah-compliant, risk-sharing financial products and services. The Islamic social finance products such as Zakah, Sadaqah and Waqaf compliments the commercial aspects. In addition, these institutions help in reducing voluntary financial exclusion and extreme poverty. The paper also highlights preference for Shariah-compliant financial products and services among Muslims, and the role of financial literacy in ensuring efficient risk management among the users of financial products and services. The role of government in promoting financial inclusion through the development of appropriate regulatory and supervisory frameworks and the development of financial inclusion strategies that will promote saving, protect consumers and promote financial literacy.

To ensure the efficacy of Islamic finance in promoting financial inclusion in Nigeria and other climes, studies recommended the sustained application of risk-sharing financial products by Islamic financial institutions. In addition, there is the need to complement financing products with Islamic social finance in order to cater for the poorest segment of the society. Furthermore, government efforts towards consumer education and financial literacy that is required for informed financial decisions and risk management should be sustained. This is more so when dealing with Islamic financial products and services that are required to meet both regulatory and Shariah requirements.

The outcome of this study relied mainly on conceptual and empirical literature. As such, studies using quantitative or qualitative analysis may obtain different results depending on the area of study and its timing. The results of the study will help Islamic financial institutions in taking decision on products and services. It will also assist the Central Bank of Nigeria and other policy makers in their efforts at promoting financial inclusion through the development of good policies.

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