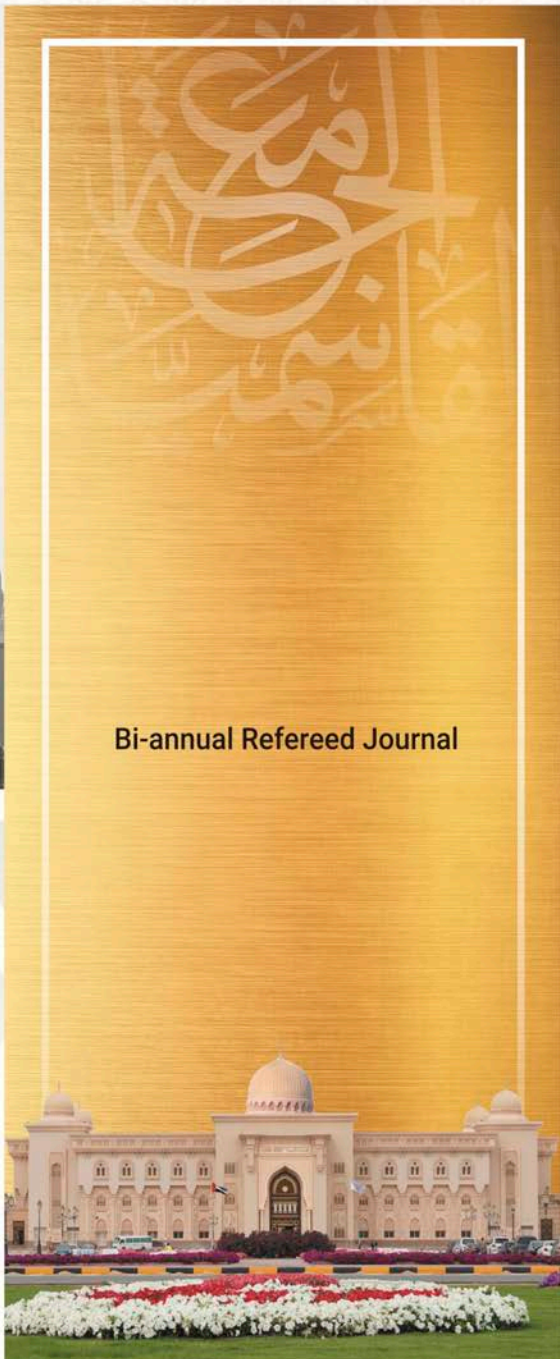
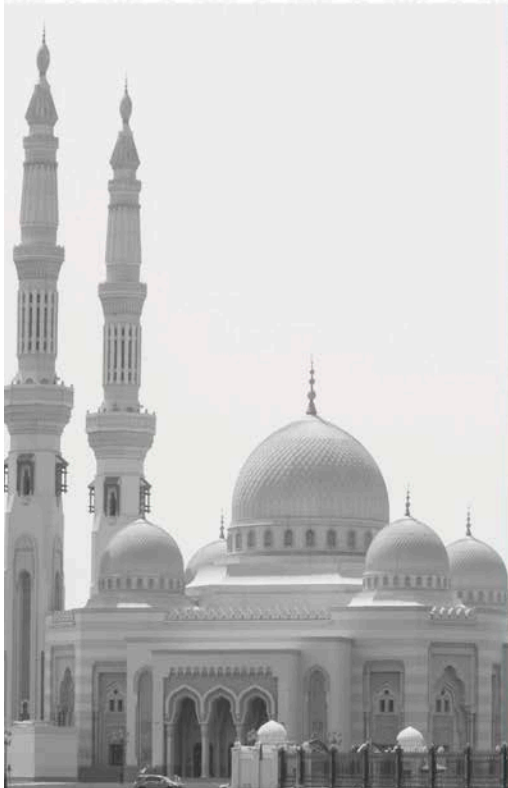


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التمويل الإسلامي والشمول المالي في نيجيريا: مراجعة منهجية للأدبيات
السابقة

ISLAMIC FINANCE AND FINANCIAL INCLUSION IN NIGERIA: A SYSTEMATIC LITERATURE REVIEW¹

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الملخص

يُعَدُّ الشمول المالي من الأولويات الرئيسة لدى صنّاع السياسات والهيئات التنظيمية والمؤسسات التنموية لما له من دور مهم في تعزيز النمو الاقتصادي والحد من الفقر وعدم المساواة وتحقيق التنمية الشاملة وتحسين مستوى المعيشة. وقد برز التمويل الإسلامي كأحد الآليات المهمة لتعزيز الوصول إلى الخدمات المالية، خاصة لدى الفئات التي تتجنب التعامل مع الخدمات المالية التقليدية القائمة على الفائدة لأسباب دينية أو أخلاقية. تهدف هذه الدراسة إلى مراجعة الأدبيات العلمية المتعلقة بدور التمويل الإسلامي في تعزيز الشمول المالي في نيجيريا. وتعتمد الدراسة على تحليل الأدبيات المفاهيمية والتجريبية لتلخيص إسهامات التمويل الإسلامي في توسيع نطاق الوصول إلى الخدمات المالية للفئات المحرومة أو المستبعدة من النظام المالي الرسمي. وتشير نتائج المراجعة إلى أن التمويل الإسلامي يسهم في تعزيز الشمول المالي من خلال توفير منتجات وخدمات مالية متوافقة مع أحكام الشريعة الإسلامية، إضافة إلى اعتماد صيغ التمويل القائمة على تقاسم المخاطر. كما تسهم أدوات التمويل الاجتماعي الإسلامي مثل الزكاة والوقف والصدقة في دعم الجهود الرامية إلى الحد من الفقر وتعزيز وصول الفئات الضعيفة إلى الخدمات المالية. وتؤكد النتائج كذلك على أهمية وجود أطر تنظيمية فعالة، وتعزيز الثقافة المالية، وتطوير سياسات حماية المستهلك لدعم مبادرات الشمول المالي. وعليه توصي الدراسة بضرورة استمرار الحكومات والجهات التنظيمية في تطوير السياسات التي تدعم نمو المؤسسات المالية الإسلامية وتعزيز برامج التوعية المالية، إضافة إلى توسيع استخدام أدوات التمويل الاجتماعي الإسلامي إلى جانب الخدمات المصرفية الإسلامية الرسمية من أجل تحقيق مستويات أعلى من الشمول المالي والحد من الفقر.

Abstract

Financial inclusion is given priority by policy makers, regulators and development organizations as it promotes economic development, alleviates poverty and inequality, fosters inclusive development, cuts down extreme poverty and enhances the quality of life. Besides, Islamic finance has been an important source of enhancing access to credit by the poor vulnerable. This paper will be a review of the existing literature to provide an overview of the efforts of Islamic finance in enhancing financial inclusion in Nigeria. Through the analysis it is established that Islamic finance makes the process of financial inclusion better as it is a better system of risk sharing and provides financial products in a *Shari'ah* compliant manner. Thus, Islamic finance helps in reducing severe poverty and voluntary financial isolation. The paper suggests amongst others, the need for government to support financial inclusion by creating suitable frameworks for supervision and regulation, financial inclusion plans, consumer protection measures, advancement of financial literacy as well as sustain its initiatives of promoting financial and consumer education. Further, the need for our Islamic financial institutions to sustain the use of risk-sharing financial products including *Waqaf*, *Sadaqah* and *Zakat* since they improve financial inclusion and reduce poverty is also suggested.

الكلمات الدالة: الشمول المالي، الصيرفة الإسلامية، التمويل الإسلامي، نيجيريا.

Keywords: Financial inclusion, Islamic banking, Islamic finance, Nigeria.

1.0 Introduction

Since the 1970s indigenisation policy, the Structural Adjustment Program (SAP) of 1986/1993 and the 2006 consolidation exercise, the Nigerian banking industry has experienced a series of reforms. The Asset Management Corporation of Nigeria (AMCON) is currently bringing the industry back to its original model. The changes were as a result of the high number of banks failures in the country. Various

researchers have found that the primary factors that have contributed to the banking crisis in Nigeria are the lack of capital, lack of transparency, inefficiency in institutional capacity, high ratio of non-performing loans, contagion risk, regulatory arbitrage, and agency problem (Ezeocha, 2020; Onyekwelu & Iroeghu, 2015). The CBN has developed policies and regulations in relation to the regulation and management of the financial institutions doing business in the country. These regulations had required the bankrupt banks to merge or be acquired by other financial companies.

Moreover, a new banking model that had flexible modalities was introduced in 2010 and this paved way to non-interest financial institutions which operated under specialized banks. Jaiz Bank Plc is a full-fledged non-interest deposit money bank that was given the license in 2012. There is a strong contradiction between the operations of non-interest banks and traditional banks. In its turn, this would make it difficult to maintain the ethical principles which had resulted in the creation of the non-interest banks in the unfortunate situation that they were purchased by a traditional financial institution in the event of their failure. In order to operate effectively and efficiently under the rules and principles of Shari'ah, an Islamic banking structure that is sustainable is needed. Islamic finance has a significant role of incorporating the segments of the society, which are not allowed to access the conventional financial institutions due to ethical and religious reasons, into the formal financial system by providing them with financial products and services that are Shari'ah compliant. This is done through the redistributive aspects of Islamic finance including *Zakat*, *Waqaf*, *Sadaqah*, and *Qard al-Hasan* and risk-sharing financial products that are Shariah compliant (Kamalu et al., 2021).

Furthermore, families in countries where Islamic services are offered have higher chances of inclusion in terms of finances compared to families that do not have Islamic financing (Shinkafi et al., 2020). Islamic microfinance is another mechanism that supports financial inclusion, referring to the provision of financial services to low-income individuals in accordance with Islamic Sharia principles. It functions under Islamic jurisprudence, which forbids interest-based transactions, discourages excessive uncertainty, promotes risk-sharing arrangements, and emphasizes the welfare of the broader community

(Muhammad et al., 2023). It makes use of trade, partnership, and lease-based finance arrangements, which ultimately result in a transfer of physical asset ownership (Elzahi Saaid Ali, 2022). In that way, the Shari'ah-compliant approach to lending money to individuals who could not find access to conventional financial services to help them start or expand a new business (Satar and Kassim, 2020). This is a combination of the merits of Islamic finance, which has been credited with assisting the poor, and the merits of the conventional microfinance to access the poor and the disadvantaged adult population. Also, the Islamic microfinance provides the poor in the society with a financial access (Abdulkadir, 2022).

The first National Financial Inclusion Strategy (NFIS) was developed in 2012 because of the necessity of advancing financial access in Nigeria. The reason is that the involvement of more adults into the formal financial system and more credit (through promotion of savings and investment) is required. The goals were set with the focus on the plan to enhance financial inclusion through the means of providing easier access to financial services, enabling their usage, and making appropriate and affordable products available to all categories of the society. Other objectives are encouraging consumer protection, financial literacy, and gender issues (CBN, 2012). Furthermore, while non-interest (Islamic) banking began in 2010, the first fully established Islamic bank was introduced in 2012. This development aimed to promote financial inclusion by expanding the range of financial products and services within the banking sector. It was specifically designed to meet the financial requirements of Muslims, as well as others seeking alternative and ethically grounded financing options. The reason is that it is believed that certain Muslims are prolific in shunning the use of traditional financial services and products because they are interest-based (Ade'Soyemi et al., 2020). In this paper, the authors will attempt to synthesize the role of Islamic finance in improving financial inclusion through a literature review. It is divided into seven parts, first literature review on the concept of Islamic finance, second section on the development of Islamic finance in Nigeria, third section on the challenges to financial inclusion and the role of government in promoting financial inclusion, fifth section on the current state of financial inclusion in Nigeria, sixth section on the

empirical studies concerning the role of Islamic finance in promoting financial inclusion and the conclusion of the paper.

2.0 Islamic Finance and Financial Inclusion

The basis of the Islamic finance is the prohibition of *riba*, which is approximately understood as interest. Marlina et al. (2023) said that there are two types of *riba*: *riba al-fadl* (surplus *riba*) and *riba al-nasiah* (credit *riba*). The sale of the same goods by a difference in the quantity means *riba al-fadl* as buying and selling the same goods with a difference in the quantity of goods sold by exchanging the same products by which the borrower exceeds the amount sold by the lender and this is known as *riba al-fadl* and the other is when there are specified additions in the loans after a specific period of time or after a long duration of time beyond the It also happens to occur when the given goods are arrived late than anticipated. Therefore, Islamic finance incorporates the redistributive aspects of *Zakat*, *Waqaf*, *Sadaqah*, and *Qard al-Hasan* and its risk-sharing Sharia-compliant financial products and services significantly contributes to helping to provide financial access, especially to people who are blocked out of the conventional financial institutions. Amin (2021) argues that financial instruments within Islamic banking and social finance contribute to improving financial inclusion in OIC countries by encouraging Islamic banks to engage in risk-sharing arrangements. These instruments include contracts such as *Murabaha*, *Musharaka*, and *Mudaraba*, as well as *Ijara*, *Salam*, and *Istisnah*. In addition, they are supported by wealth redistribution mechanisms, including *Zakat*, *Sadaqah*, *Qard al-Hasan*, and *Waqf*. Moreover, households with Islamic services have a better chance of being financially engaged in OIC countries compared to families that do not receive the services (Kamalu & Ibrahim, 2021).

Although Islamic microfinance primarily targets individuals who are excluded from formal financial services due to factors such as high costs, lack of collateral, or other barriers, it also facilitates access to Shari'ah-compliant financial solutions for those who require them. Islamic microfinance refers to the delivery of financial services to low-income populations in accordance with Islamic principles. It operates based on Islamic teachings, which prohibit interest-based transactions

and excessive uncertainty, promote risk-sharing arrangements, and emphasize the welfare of the wider community (Uddin et al., 2020). As a result, it makes use of trade, partnership, and lease-based finance structures, which ultimately result in a transfer of physical asset ownership (Muhammad et al., 2023). Therefore, it can be defined as the Shari'ah-compliant approach to lending money to individuals who failed to access conventional financial services to help them start or expand a business (Satar & Kassim, 2020). Financial inclusion is just one aspect of Islamic microfinance (Abdullahi et al., 2020). In addition, it is expected to enable the social inclusion process through the two tools of lending and Zakat. This is expected to make Islamic microfinance more effective. Moreover, Islamic banks enhance transactions as they are traders, fully engaging in transactions as opposed to the traditional banks where they issue loans on the interest basis (Alshater et al., 2023). This attracts investors and business proprietors especially those in the unorganized sector who believe they have been marginalized by the traditional banking system.

3.0 Financial Inclusion Barriers and the Government's Role

A wide range of factors, including conditions, pricing, marketing, or self-exclusion due to bad experiences or perceptions (Khera et al., 2022); inadequate education, low earnings, and unemployment (Barajas et al., 2020). In the cross-national analysis, Yap et al. (2023) mentioned additional barriers to financial inclusion. These were as follows; inability to be literate, having physical access limitations, discrimination (based on race, religion among others); absence of collateral; incorrect documentation and cost of maintaining a bank account. The report suggested credit registries, technological introduction, and institutional change of the financial system to bring more access to financing. Moreover, protection of property rights would occur, access would be enhanced by eliminating physical barriers, recovery of debt would be guaranteed, transaction cost would be reduced, bank lending would grow, and credit records would be created and maintained. Thus, to enhance financial inclusion, governments on the national and subnational level have a major role to play in terms of eliminating these barriers. Besides ensuring that more people can access formal financial services, the government has

a responsibility of ensuring that it does so in an efficient manner. Financial inclusion can therefore be understood as the process of expanding consumers' access to financial services in a way that is both secure and empowers individuals to make informed and voluntary decisions. Achieving this requires effective government policies and responsible industry practices guided by ethical standards that promote transparency and equitable treatment of customers. Together, these elements establish a solid foundation for financial inclusion grounded in robust consumer protection. Governmental intervention in financial inclusion, therefore, include the following; policy making, infrastructural development, improved saving, consumer protection, financial literacy and financial inclusion improvement strategies (Barajas et al., 2020).

4.0 Nigerian Islamic Banking Evolution

The endeavour to develop non-interest (Islamic) financial institutions (NIFIs) in Nigeria started in 1992 with the granting of two licenses under the Bank and Other Financial Institutions Act (BOFIA) 24 & 25 of 1991. The first non-interest banking window however was not introduced until 1999 by Habib Nigeria Bank (Limited). In June 2011, however, the CBN made a major stride in the history of Islamic banking in Nigeria, issuing the Framework, Regulation and Supervision of Institutions that Provide Non-Interest Financial Services under Its New Banking Model. The principles and rules of Islamic financial jurisprudence regulate the way NIFIs, which were hitherto classified as specialized banks, should develop their business. The Framework described licensing criteria, money and financial mechanisms and instruments and corporate governance issues. Other characteristics that were defined included prudent regulations and risk management (CBN, 2011).

As a result, Jaiz Bank Plc was established as a special purpose vehicle (SPV) in 2003/2004 thus becoming the first fully functioning non-interest (Islamic) bank. Having three outlets in Abuja, Kaduna, and Kano. The bank that commenced its operations as a regional bank in January 2012, was given the go-ahead to operate in all the 36 states of Nigeria in 2016 after being upgraded to a national bank operating license. Also, in July 2019, the CBN issued a license to TAJBank Ltd

that it can begin to operate as a full-fledged Islamic bank. Furthermore, there are two conventional banks whose products and services are offered in non-interest banking windows, namely, SunTrust Bank and Sterling Bank Plc.

To create a level playing field between conventional microfinance banks and Non-Interest Microfinance Banks (NIMFBs), the Central Bank of Nigeria (CBN) issued the Guidelines on the Regulation and Supervision of Non-Interest (Islamic) Microfinance Banks in 2017. These guidelines also provide the public with an alternative microfinance model based on profit-and-loss sharing principles. This approach is intended to promote financial inclusion by incorporating individuals, communities, and businesses into the formal financial system who might otherwise remain excluded by conventional microfinance institutions. NIMFBs primarily target microenterprises, as well as the unbanked, underserved, poor, and low-income populations (CBN, 2017).

The new framework obliges Islamic MFBs to conduct business in financing modalities and instruments that are Shari'ah compliant. They also need to comply with the set-up non-interest deposit insurance program and anti-money laundering and combating the financing of terrorism law and regulations or AML/CFT. Nigeria currently has three Islamic Microfinance Banks. These three are the Halal Credit Microfinance Bank, Tijarah MFB, and I-Care MFB. However, the Islamic finance subsector in Nigeria has not been very active over the years. In fact, the total domestic assets of the non-interest (Islamic) banking constituted only 0.3% of the banking sector at the end of the second quarter of 2018, which is at par with the same figure at the same period in 2017 (Islamic Financial Services Board, 2019).

5.0 Nigerian Financial Inclusion Development

Financial inclusion may be viewed as a catalyst to increase both growth and income disparity by giving the underprivileged access to capital for investments and consumption as well as shock protection (Dar & Ahmed, 2021). It has been seen all over the world that policies meant to incorporate those who have been locked out of the formal financial system should be formulated and implemented to eliminate

poverty and income inequality. This is because, according to Xun et al. (2020), financial exclusion in its existing form promotes social instability, income inequality, and efforts at social development. This has made it one of the major issues of concern by governments, regulators and development organizations around the world in regard to financial inclusion.

In 2012, the Federal Government of Nigeria developed the first National Financial Inclusion Strategy (NFIS). The strategy adopted by the CBN was based on four major areas. Some of them are agency banking, mobile banking and payments, connecting models, and client empowerment. By means of increased usage, increased access to financial services, and provision of appropriate and affordable products, the strategy established objectives to enhance financial inclusion. Others are putting more of an emphasis on gender concerns, consumer protection, and financial literacy (CBN, 2012).

Prior to the introduction of the National Financial Inclusion Strategy (NFIS), a key priority was to expand access to financial services for low-income individuals and the poor. For example, in 2005, the Central Bank of Nigeria (CBN) introduced the Regulatory and Supervisory Framework for Microfinance. The Framework is aimed at enhancing the delivery of diversified microfinance services to the low-income and poor groups on a sustainable basis in the long-term. The CBN that granted the structure of how Islamic (non-interest) banks operate in Nigeria in 2010, was carried out to reduce high level of financial exclusion that the Muslims are undergoing especially in northern Nigeria. This was because most Muslims wanted to come up with Islamic financial institutions that would serve their needs without imposing interests. Ade'Soyemi et al. (2020) cited another reason was that some Muslims do not use traditional financial services and products because they are interest-based. The Guidelines on the Regulation and Supervision of Non-interest (Islamic) Microfinance Banks (NIMFBs) in Nigeria were also released by the CBN in 2017. This initiative was designed to create a level playing field between conventional and non-interest microfinance banks. It was intended to promote financial inclusion by focusing on disadvantaged and low-income individuals who remain excluded from the formal financial

system, particularly those not adequately served by conventional commercial or microfinance institutions (CBN, 2017).

All these are forecasted to increase the level of financial inclusion in Nigeria, especially in the most marginalized parts of the country, which are the North-West and North-East. During the period that these policies and programs were being realized, there were some achievements that had been recorded. But difficulties still exist. The financial inclusion is shown by the percentage of Nigerian adults who use formal financial services, which has grown to 48.6% in 2014, 43% in 2012 and 36.3% in 2010. This level was maintained in 2016 (CBN, 2018). The number of adult users of formal financial services rose marginally in 2018 to 48.7% and 14.5% received services informally (CBN, 2019). The rest 36.8 percent remained inaccessible to any financial services.

Mixed results were found on the channels of access to financial services. The proportion of adults holding payment and savings products stood at 22.0% in 2010 and 32.6 and 36.2% in 2018, respectively. This may not be perceived as a success since they stand significantly lower than the NFIS figures of 63.2% and 52.5, respectively. The finance, insurance, and pension goods have even made worse advancements. The country has registered an increase in the proportion of adults holding credit 3.5%, insurance 1.0 and pension products 3.5 between 2010 and 2018. On the other hand, there were 0.9 microfinance bank branches per 100,000 adults in 2018 compared to 2.9 in 2010. All these are to counter the increasing number of adults who require formal financial services.

Further, the financial exclusion level of Nigeria (36.6) is high compared to some other countries of sub-Saharan Africa. In South Africa, for example, the percentage of excluded people was 7% in 2018, 17% in Kenya in 2016, 22% in Uganda in 2017, and 22% in Namibia in 2017. Nigeria was therefore included in the list of countries whose development towards financial inclusion stalled. In fact, 50 percent of the citizens of developing countries having no access to formal finance (based on account ownership as a proxy) reside in seven countries, including Nigeria, which has 4 percent of the global financially deprived population. This fact is premised on the study by Demircuc-Kunt et al. (2018).

Another challenge is the difference in the financial inclusion levels of regions in Nigeria. Statistics showed that in terms of utilizing formal financial services, the north of the country is found to be behind the south. North-Western and North-Eastern parts of Northern Nigeria that are mostly Muslim have the lowest access to formal banking. According to the results of an EFINA survey conducted in 2014 across the 36 states including the FCT, ten of the twelve most financially excluded states are in the North-West and North-East of Nigeria. Thus, to resolve this problem, the Survey recommended that regulators and financial service providers should be especially attentive to the North-West and North-East of Nigeria (EFInA, 2015). The disparity continued in 2016, as 62 percent of the population in the northeast and 70 percent in the north-west were unable to access financial services (CBN, 2018).

CBN revised the NFIS in a bid to rectify these problems and give viable solutions. Three main obstacles to Nigerian financial inclusion were noted by the Revised NFIS. These are: attitudes and views (23.6%), institutional exclusion (38.4%), and affordability (64.9%). Other obstacles have the remaining 4.5 percent (CBN, 2019). The consequence is an increase in the poverty and income inequality between the northern and the southern parts of Nigeria. In order to overcome these obstacles, the Revised NFIS plans to increase the percentage of financial inclusion by utilizing digital financial services. This will be achieved through the encouragement of payments between People to Government and Government to People and expansion of the agent network.

The failure of the policy under evaluation to offer a clear methodology on how to tackle the attitudes and perceptions among the minority Muslim who want to have access to interest-free banking products, was a major gap. This follows even though the high interest rates and the absence of collateral by the borrowers meant that the traditional financial institutions were unable to achieve the NFIS credit penetration target. To mitigate some of these problems, the CBN licenses commercial and microfinance banks which are non-interest financial institutions. Nonetheless, these organizations must be vigorously marketed to serve the purpose of their creation.

6.0 Financial Inclusion Based on the Prior Literature: The Role of Islamic Finance

To gain a clearer insight into the role of Islamic financial institutions in financial inclusion, the literature pertaining to the two categories of Islamic banks, as well as Islamic microfinance banks, is reviewed in this section. This is because all these financial institutions enhance financial inclusion in one way or another. They contribute two times to the Islamic banks. On one hand, they provide products that conform to Shari'ah to those people who are marginalized on religious grounds. They also provide customers who could only use a few traditional products due to necessity with more products and services. This is the type of financial migration that Tahiri (2018) described.

Islamic microfinance banks target the segment of the population unable to access official financial service providers, because of the cost, absence of collateral, or other disqualifying factors. Moreover, they facilitate social inclusion using Islamic social finance tools such as *Zakat*, *Waqaf* and *Sadaqah*. Therefore, they also have a dual responsibility. They do not only enhance financial inclusion but also help to alleviate poverty. Shari'ah-compliant financial microfinance services help in enhancing financial inclusion, whereas microcredit and other social finance elements that are also elements of financial inclusion help in alleviating poverty.

The dataset available in the World Bank Global Financial Inclusion Index was analyzed by the Probit and Tobit Regression models and Juhn-Murphy-Pierce decomposition method used by Abdul et al. (2018) to examine the hypothesis that Islamic finance can enhance financial inclusion in Sub-Saharan African (SSA) countries. The research states that some SSA countries that are members of the Organization of Islamic Conference (OIC) have increased access to formal financial services. Nevertheless, the research found that this is an essential requirement, but not a sufficient one. The research proposed that policy makers should ensure that Islamic financial institutions are well placed where their services are highly demanded and facilitate financial literacy to be able to use the Islamic banks effectively.

The study employed three variables that were referred to as, accessibility, availability, and utilization of the Islamic banking

services and they were the variables used in the study in calculating the Indonesia Islamic financial inclusion index. Another aspect evaluated by the authors was the relationship between human development index (HDI) and Islamic financial inclusion index. In line with this, the national level of Islamic financial inclusion in Indonesia is relatively low. The most financially inclusive province in Indonesia is the DKI Jakarta, next is East Java and Nanggroe Aceh Darussalam. On the other hand, the average Islamic financial inclusion index is lowest in East Nusa Tenggara.

GINANJAR and KASSIM (2019) also assessed the role of Islamic beliefs and financial policies of the Islamic Microfinance Institutions (IMFIs) in alleviating poverty in Indonesia using Baitulmaal wa Tamwil (BMT) or Islamic microfinance. The authors analysed data on survey questionnaires which include IMFIs contributions to financial education, Islamic values, financial policy, community development and poverty alleviation by using five latent, four exogenous and one endogenous variables and Partial Least Squares (PLS) regression technique. The findings show that financial education is crucial for reducing poverty. This is because it enables the poor to manage financial risks and make informed financial choices. The paper also found out that the value-relevant effect of Islamic financial policies and beliefs on poverty reduction exists, and this supports the notion that Islamic social finance is pivotal to the reduction of poverty by financial inclusion. To meet the objective of alleviating poverty, the report recommended IMFIs to enhance their Islamic faith and offer financial education. This is because, financial inclusion, which encompasses financial literacy, helps in reducing poverty as it helps the users of financial services make informed decisions as well as financial risks management.

SHINKAFI et al. (2020) explored the theoretical foundations underlying decisions aimed at achieving financial inclusion within Islamic finance. The study adopted a library-based research approach, relying on relevant and up-to-date documentary sources. The findings indicate that several factors constrain financial inclusion-particularly among women, low-income groups, and rural populations-including limited technological advancement, inadequate access to microcredit and microfinance services, weak legal and regulatory commitment

from policymakers, low public awareness of Islamic financial products, insufficient financial literacy, and underdeveloped financial infrastructure.

Adzimatinur and Gloriman (2021) examined the effect of financial inclusion of Islamic banking on the economic development of Indonesia. The authors applied Industry Production Index (IPI), a measure of economic growth, and the volume of financing, number of accounts related to Third-Party Funds, and number of financing accounts are the measures of financial inclusion. Time series data from January 2011 to February 2020 as well as Vector Error Correction Model (VECM) were used for data analysis. The findings demonstrate that while inflation has a negative impact on lag two and a favourable impact on lag one in the short term, it benefits lag one in the long run. Nonetheless, the financial inclusion indicator shows that the financial inclusion of Islamic banking has a positive influence on the economic growth of Indonesia.

Elzahi Saaid Ali (2022) explored the degree at which Islamic microfinance can alleviate poverty among the Muslim population. The results showed that the traditional microfinance targets low-income earners. But it has kept the poor off the microcredit and other activities associated to it such as savings and socially and financially empowering oneself through skill upgrades. Further, the result indicates that Islamic microfinance is moving forward in its conventional counterpart in terms of enabling effective social and financial inclusion simultaneously. This is achieved through Islamic social mechanisms such as Sadaqah, waqf and Zakat. These are to be provided directly to the very poor, in either cash or in kind, to ensure that their basic needs are met, and then proceed on to microcredit. These results are thus a good motivation to individuals who provide microfinance in such nations so as to boost the financial and social inclusion of the poor people. This can therefore be accomplished by implementing Islamic microcredit.

In the same year, Banna et al. (2022) estimated the non-bias-corrected efficiency and the bias-corrected efficiency of the period, 2011 through 2017 and tested the effect of financial inclusion on Islamic banks using Data Envelopment Analysis and Simar-Wilson double bootstrapping regression methods. They found that the trend in

the efficiency of Islamic banking sector is unstable in most countries apart from some countries in Asia and the Middle East. It also shows the extent to which Islamic banking efficiency and financial inclusion are associated. Ultimately, the results indicate that Islamic banks continue to experience the impact of the economic recession and that they should focus more on financial inclusion since such institutions are characterized by greater financial efficiency when their financial contexts are favorable and supportive.

Razak and Asutay (2022) also studied the role of Islamic pawnbroking and *ar-rahn* lending facilities in enhancing the financial welfare of clients in Malaysia because they offer financial inclusion. The results presented in the arguments using Structural Equation Modelling (SEM) to analyse primary data (2010 to 2016) argued that the well-being of clients improves significantly with financial inclusion *ar-rahn* patronage. The authors also discovered that the application of *ar-rahn* financing on the production-related economic activity significantly influences socioeconomic and financial growth and enhances human well-being and micro-balancing. It was hypothesized in the study that *ar-rahn* in the context of the social failure of the Islamic banking can help in overcoming voluntary financial exclusion due to Shari'ah compliance. This, consequently, is beneficial to clients in their day to day lives who might have small, non-liquid assets in detention as security. The author indicated that *ar-rahn* institutions help empower women and therefore, ought to be active in increasing its scope in addition to developing the necessary regulatory culture.

The article by Ozdemir et al. (2023) provides a tailored microfinance program of the Turkiye participation banks (PBs) based on the best practices in the global community and the feedback of key stakeholders obtained through 40 in-depth interviews. The authors found out that PBs offer a lot of potential in respect of funding sources, financing mechanisms, and risk control systems. All the stakeholders concurred that PBs should incorporate microfinance in their operations to make them realise their development missions. The study provided the most comprehensive study about Islamic microfinance in Turkiye by involving the perspectives of participating bankers, managers of Islamic microfinance institutions (MFIs), the representatives of the

regulatory authorities and academics, including shari'ah scholars. Thus, the proposed model contributes to the lack of knowledge about Islamic microfinance in Turkiye and offers PBs effective suggestions on how to become more socially responsible and help low-income people in their financial inclusion.

Saifurrahman and Kassim (2024) analyzed the Islamic banking, micro, small and medium-sized enterprises (MSME), and Islamic banking institutes legal and regulatory frameworks in Indonesia. The research that found any legal constraints or regulatory lapses that can hinder development of financial inclusion and sustainable growth among MSMEs, and Islamic banking institutions employed a multi-case study research method, qualitative research and data of both MSMEs and Islamic banks. Based on purposive uncontrolled quota sampling of data, which were largely collected by means of interviews, the results revealed two important issues First, the regulatory differences and constraints can dishearten and hinder the efforts of Islamic banks to avail the industry of the sector of financing, which will slow down the industry in the direction of the financial inclusion objective. Secondly, the shortcomings in the taxation and registration of MSMEs might discourage informal MSMEs units to register as businesses and formal MSMEs to renew their company licenses. Due to improper legality, this issue may make it more difficult for them to participate in government programmes that help them to obtain external finance from legitimate financial institutions.

7.0 Conclusion

The role played by financial inclusion in alleviating poverty, promoting shared prosperity, economic growth, inclusive sustainable development, promoting thrifty behaviour and efficiently distributing resources can hardly be overstated. The available literature is enough to demonstrate that Islamic finance encourages financial inclusion through the provision of risk-sharing, Sharia-compliant financial instruments. Examples of Islamic social financing products that complement the commercial aspects include *Zakat*, *Sadaqah* and *Waqaf*. These institutions also contribute to the alleviation of abject poverty as well as voluntary financial seclusion. The research also highlights the tendency to use financial services and financial products

that are *Shari'ah* compliant, the significance of financial literacy in enabling successful risk management among the financial products and services users. The governmental role in promoting financial inclusion involves the establishment of appropriate legislative and supervisory measures, financial inclusion plans which promote saving, consumer protection and financial literacy.

Research indicated that the Islamic financial institutions still rely on risk-sharing financial instruments to ensure that Islamic finance is viable in promoting financial inclusion in Nigeria and other nations. To support the neediest individuals in the society, Islamic social finance should be employed alongside conventional financing packages. In addition, government initiatives to promote financial literacy and consumer education are both necessary for risk management and well-informed financial decision-making. This is particularly so with respect to Islamic financial services and products which must comply with the *Shari'ah* and regulatory requirements. The conclusions of this study are mainly drawn on conceptual and empirical literature. As a result, depending on the subject and the time of the investigation, studies utilizing quantitative or qualitative analysis may produce different findings. The findings of the study will be helpful in making decisions regarding goods and services to Islamic financial organizations. Moreover, it would assist the CBN and other policy makers by assisting them to design sound policies that would facilitate financial inclusion.

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