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Enhancing socio-economic justice and financial inclusion in Nigeria

The role of zakat, Sadaqah and Qardhul Hassan

Financial
inclusion in
Nigeria

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Abstract

Purpose – The purpose of this paper is to discuss the roles of Zakat, Sadaqah and Qardhul Hassan within the context of the existing literature as major Islamic financial instruments for enhancing socio-economic justice amongst Muslims haves and have-nots as these enhance financial inclusion in Nigeria.

Design/methodology/approach – The discussion in this paper is based on secondary sources such as the divine knowledge contained in the *Qur'an*, *Hadiths* and the existing literature, such as previously conducted empirical studies and Islamic world view (*Tawhidi* epistemology).

Findings – This paper implores Islamic societies to use Zakat, Sadaqah and Qardhul Hassan as instruments that encourages wealth redistribution that promotes efficient and effective wealth redistribution between haves and have-nots as part of the vicegerent (*khalifah*) role between mortal being (human) and his immortal creator (*Allah*). This paper concludes by suggesting the use of these Islamic financial instruments as means to enhance socio-economic justice and financial inclusion in the Nigeria's Muslims' communities that are negatively affected by the high rate of financial exclusion and poverty as had been previously practiced in the Muslim world throughout the Islamic history.

Research limitations/implications – This paper provides critical suggestions on the ways Zakat, Sadaqah and Qardhul Hassan will contribute significantly towards assisting Nigeria in achieving its vision of reducing the financial exclusion rate that is currently put at 41.6% to 20% by the year 2020 and may foster inclusive growth and sustainable development. However, the limitation is that it is a mere conceptual study, and the future researchers may subject it to the scientific test to offer empirical evidence regarding the roles of Zakat, Sadaqah and Qardhul Hassan towards closing the gap of financial exclusion in Nigeria.

Originality/value – This paper contributes to the existing literature on the doctrine of the Islamic moral economy by recommending the adoption of Islamic financial instruments as tools for enhancing income redistribution and financial inclusion.

Keywords Zakat, Financial inclusion, Qardhul Hassan, Sadaqah, Socio-economic justice

Paper type Conceptual paper

1. Introduction

An Islamic economic system is a rule-based system in which economic activities are treated as acts of worship to *Allah*, the most high. The aim is to have an economic system based on the dictates of *Allah* (the Creator) in the *Qur'an* as exemplified by His Holy Messenger and Servant - Muhammad (SAW) in His words and His practices (*sunnah*) (Iqbal and Mirakhor, 2013). Islamic economic system provides an alternative financing solutions against its conventional financial system. These solutions are in accordance with the doctrines of



Islamic jurisprudence (*Shari'ah*) (Nagaoka, 2012). *Shari'ah* strives to promote moral and ethical values in establishing an economic system that prohibits transactions involving interest (*riba*), uncertainty (*gharrar*) and prohibited products (Wilson, 1997). As part of its fundamental principles, *Shari'ah* emphasises the need for socio-economic justice through equitable distribution of income and sharing resources between haves and have-nots which will enhance financial inclusion (Binmahfouz, 2012). In Islam, maintaining good relationship among human beings and the rest of creations (*Qist*) and the action of *Allah* to place everything in its rightful place (*Adl*) are the theoretical foundations of socio-economic development as contained in the *Qur'an* and *Hadith* (Kamla and Rammal, 2013; Iqbal and Mirakhor, 2013). Thus, in Islam, the humans' inner balance and relation with *Allah* depend on their ability to achieve social solidarity, unity and mutual respect among each other (Kamla and Rammal, 2013). Socio-economic justice is indeed an indisputable element of the Islamic faith as against the gross income inequalities among the Muslim communities. An ideal society in Islam is where rules that relate to fair and just earning of income, such as the prohibition of interest, limiting profit earnings in favour of equitable distribution, holding workers in very high esteem and opposing the exploitation of labour are found (Mirakhor and Iqbal, 2014).

The study conducted by Hassan (2015) and Atia (2010) showed that Islamic financial instruments can play significant roles in enhancing financial inclusion. Naceur, Barajas and Massara (2015) argued that institutionalization of Islamic redistributive mechanisms such as Zakat, Sadaqah, Qardhul Hassan might assist in enhancing financial inclusion. A survey conducted by Mohseni-Cheraghloou *et al.* (2014) showed that about 2.7 billion people (which represents 70 per cent of the global adult population) in emerging economies such as Nigeria still lacks access to basic financial services, and a great part of them comes from countries with predominantly Muslim population. According to Iqbal (2014), only 24 per cent of the world Muslims are financially included against their non-Muslim counterparts with 44 per cent. The former had only 14 per cent in sub-Saharan Africa against the latter with 28 per cent in the same region. Despite several reforms aimed at enhancing financial inclusion in Nigeria, the exclusion rate was still put at 41.6 per cent that is considered high (EFInA, 2017). The Central Bank of Nigeria (CBN) planned to reduce this exclusion rate to 20 per cent by the year 2020 as contained in its National Financial Inclusion Strategy (NFIS) (CBN, 2012; Sanusi, 2013).

Because of the global commitment to improve the financial inclusion rate as a vehicle for economic development and successful implementation of this strategy in Nigeria, it is impacting positively on the rate of access to financial services in the country. A significant reduction in the exclusion rate is noticeable, as it had reduced from 52.5 per cent in 2008 to 39.7 per cent in 2012 (EFInA, 2014). However, it has been observed that the reduction between 2012 and 2014 was not encouraging as it had only reduced by 0.2 per cent from 39.7 per cent to 39.5 per cent. The situation worsened in 2016 as the rate increases from 39.5 per cent to 41.6 per cent (EFInA, 2017). Existing literature had established that Islamic financial instruments offer a comprehensive approach to poverty eradication and enhance access to finance among the vulnerable poor, especially Muslims communities in Nigeria, and ultimately build a healthy and vibrant economy (Gelbard *et al.*, 2014). Similarly, the instruments offered by the modern-day Islamic financial service providers have strong historical pedigrees as evidenced by their application throughout history in various Muslim communities (Cihák and Hesse, 2010). The question is that, can Zakat, Sadaqah and Qardhul Hassan reverse the rising trend of financial exclusion rate towards achieving the Nigeria's target of 20 per cent financial exclusion rate by the year 2020?

Basically, there are four components that form Islamic Finance. These include Islamic Banking (with products such as *Mudarabah*, *Musharakah* Qardhul Hassan etc.), Islamic Capital Markets (where Islamic financial instruments such as Sukuk are traded), Islamic Insurance (with products such as Takaful) and Islamic Wealth Management (that promotes socio-economic justice and wealth redistribution inform of Zakat, Sadaqah, etc.). The emphasis in this paper is on Zakat, Sadaqah and Qardhul Hassan as Islamic financial instruments that promote socio-economic justice and financial inclusion. Islamic finance addresses the issue of financial exclusion by promoting risk-sharing contracts as an alternative to the debt-based conventional financing through specific instruments of wealth redistribution among the members of the society. By critical analysis of these approaches, they all complement each other aiming at enhancing financial inclusion, poverty eradication and building a sound, healthy and vibrant economic system among the Islamic societies (Aydin, 2015).

Historically, Zakat, Sadaqah, and Qardhul Hassan were used in various Muslims communities as Islamic financial instruments that facilitate access to financial services among the poor and downtrodden members of the Islamic societies. This may ultimately reduce poverty, creates wealth, facilitate economic growth and development and reduce the level of financial exclusion that is so pronounced among the Muslim-dominated regions globally (Iqbal and Mirakhor, 2013). Islamic financial system has historically provided that funds can be channelled for conducting micro businesses aimed at assisting the poor members of the community. Zakat is the third pillar of Islam that requires a compulsory alms giving of 2.5 per cent annually (Jaffri Saad *et al.*, 2010). This is deductible from Muslim's net monetary income and payable to the poor and disadvantaged members of Islamic societies that are classified in to eight (8) groups (Saad *et al.*, 2017). This obligatory payment is applicable to fourteen (14) classes of Islamic taxable income that have attained the minimum amount known as *Nisab*. This is considered by many scholars as a means of income redistribution that promotes economic growth and development and reduces income inequalities (Raimi *et al.*, 2014; Farouk *et al.*, 2018).

Sadaqah and Qardhul Hassan are equally key Islamic finance instruments used to foster wealth redistribution between haves and have-nots in the Islamic societies in the form of social goods. While Sadaqah (voluntary alms) referred to as money or any form of capital donated to the poor on a voluntary basis, Qardhul Hassan (benevolent loan) is a charitable loan, which in addition to being a qardh (interest-free loan), also contains elements of goodwill, benevolence, and generosity (Mohseni-Cheraghrou, 2015). These renowned Islamic financial instruments are critical sources of establishing social intervention funds with a view to reducing the financial exclusion issues bedevilling the Muslim-dominated communities such as the northern region of Nigeria (Atia, 2010). Financial inclusion has been defined as the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society (Mohseni-Cheraghrou, 2014).

The existing literature had highlighted critical gaps especially that the study of this nature and magnitude is quite scanty especially in the Sub-saharan Africa. Although similar studies such as that of Aydin (2015); Yaacob *et al.* (2012); Mohseni-Cheraghrou (2014); Cebeci (2012); Mohieldin *et al.* (2011); Askari *et al.* (2012); Naceur *et al.* (2015); Hachicha *et al.* (2015); Choudhury and Al-Sakran (2001) had attempted to close the literature gaps, but they were conducted in different jurisdictions which differs from Nigeria due to its peculiarity. This includes religious politicization, historic resentments of religious feud between Muslims and Christians that led to several crises in the past and having a lot of political divisions between Muslim-dominated north and Christian-dominated south, low level of knowledge and awareness of Islamic financial instruments (Ajani *et al.*, 2013; Markovska and Adams, 2015).

Consequently, conducting a study of this type in Nigeria with a newly introduced Islamic banking and its products in 2011 becomes expedient. Consequently, this paper aimed at discussing the roles of Zakat, Sadaqah and Qardhul Hassan within the context of the existing literature as major Islamic financial instruments for enhancing socio-economic justice amongst Muslims haves and have-nots as this enhance financial inclusion in Nigeria.

To this end, the paper is divided into four sections. Section 1 deals with the introduction and general background. Section 2 represents the literature review, whereas Section 3 presents research implications and limitations. Finally, Section 4 concludes the paper and proffers some recommendations to government policy makers and other stakeholders on the adoption of Islamic financial instruments as tool for enhancing financial inclusion. This will serve as an act of worship by the mortal being to his immortal creator (*Allah*) who is the ultimate owner of all wealth (*Qur'an* Chapter 2 verse 284) and will assist Nigerian government in its quest to reduce the financial exclusion rate to 20 per cent by the year 2020.

2. The concept of socio-economic justice and social inclusion in Islam

The concept of socio-economic justice is an essential element of Islamic *Shariah*. *Shariah* plays a significant role in promoting socio-economic justice through its emphasis on morality and advancement of socio-economic justice in an Islamic society (Kamla and Rammal, 2013). For example, under the leadership of the Prophet Muhammad (SAW), Madinah society provides evidence that the doctrine of governance, accountability, property ownership, distribution and redistribution of wealth and rules regarding sources of government income and expenditure all indicate the importance of encouraging and enhancing justice in societies. Other religions such as Christianity have as their cardinal objective and teaching, the promotion of socio-economic justice in societies as against the capitalist view that encourages rich to get richer without considering the poor members of the society (Mohseni-Cheraghlo, 2014). Socio-economic justice refers to the fair and just relationship between the rich individuals and other members of the society. This is assessed by the extent of people's participation in the distribution of wealth, opportunities for personal activity and extending social privileges to the less privileged members of the societies. This includes the process of ensuring that people fulfil their societal roles and extending the hands of fellowship among the members of the society (Kamla and Rammal, 2013; Laldin and Furqani, 2013). In the present globalization, concept of socio-economic justice has taking a global dimension with lots of advocacy and grassroots movements. This includes breaking barriers for social mobility, the creation of safety nets and economic justice especially to the less privilege members of the society.

As part of the fundamental principles of *Shariah*, Islam places a great emphasis on socio-economic justice, inclusions and sharing of resources between the haves and the have-nots. Islamic finance addresses the issue of financial inclusion by promoting risk-sharing contracts that provide a viable alternative to conventional debt-based financing, through Islamic financial instruments for wealth redistribution among the society (Mirakhor and iqbal, 2014). According to Chapra (1983), eradication of poverty, socio-economic justice and equitable income redistribution are among the crucial objectives of Islam and therefore ought to be the prominent features of an Islamic economic system. This concept has repeatedly been mentioned in several verses of the Holy Book of Allah in Islam. *Allah* beseched Muslims to do well to others as part of His worship and abstain from being arrogant, the vainglorious. The classes of people *Allah* recommended us to do good to as contained in *Qur'an* Surat An Nisa'i chapter 4 verse 36 includes parents, relatives, orphans, nearby neighbours and strangers, your friends, wayfarers and what your right hand possesses (Saufi and Mustapha, 2012).

Similarly, Holy Prophet Muhammad (SAW) in his Hadith as contained in Bukhari and Muslims implore Muslims to assist each other. He encourages us to relieve a believer of some stress of this world so that *Allah* will relieve us the stress of last day. He also encourages Muslims to ease insolvent's loan of a fellow Muslim so that *Allah* will make things easier for him in this world and Hereafter. Muslims are also encouraged to conceal fellow Muslim's faults, so that *Allah* will conceal his faults in this world and in the Hereafter. Prophet Muhammad (SAW) also promised that *Allah* will continue to help a person so long as he helps his fellow Muslims brother (Warsame, 2009). Assisting one another in this case includes moral and financial assistance that will encourage redistribution of wealth among the members of the Muslims communities. Among the instruments used in the Islamic economic system that promotes income redistribution are the Zakat, Sadaqah, and Qardhul Hassan (Cebeci, 2012). The fundamental basis of Islamic financial system is socio-economic justice (known as *al-adl al-ijtima'i*) and benevolence (*al-ihsan*) and should be reflected in its core operations (Hassan, 2015). This means the essence of the entire Islamic economics system is based on the concept of socio-economic justice in which the fair distribution of wealth among members of the society is ensured so as to promote social welfare, poverty eradication and financial inclusion. *Shariah* also contains guidelines on the wealth redistribution in the society as argued by Iqbal and Mirakhor (2013). This includes the payment of levies on income (*Khums*) and on wealth (Zakat). The principles also promotes the expenditures to improve society and as an act of worship to *Allah* (*Infaq*), granting loan benevolently without requesting for interest (Qardhul Hassan), charitable payment and alms given to redress others' right on your wealth (Sadaqah) and provision of assets in which income is generated and channelled towards building and maintaining public infrastructure (*Waqf*) (Jalil and Rahman, 2010; Mohseni-Cheraghrou, 2015). The emphasis of this paper is on Zakat, Sadaqah and Qardhul Hassan as Islamic financial instruments for promoting socio-economic justice and financial inclusion in Nigeria.

2.1 An overview of financial inclusion in Nigeria

Financial inclusion refers to the situation whereby the abled and willing people of working age have adequate access to financial services such as credit, savings, payments and insurance at a reasonable and acceptable cost (Central Bank of Nigeria, 2012; Nwankwo and Nwankwo, 2014). Adequate access in this case includes convenience of access and acceptable service delivery at an affordable cost. The services have to be rendered such that the customer can afford it and service provider can make a reasonable profit for him to survive in that business (Camara and Tuesta, 2014). According to Richards (2006), as cited in Kamla and Rammal (2013), 90 per cent of the world's self-employed poor lacks access to basic financial services. The European Union's (EU) Charter of Fundamental Rights considered access to basic financial services for sustainable socio-economic development and social cohesion as a fundamental human right. The UN sets targets to enhance financial inclusion which includes having a formal bank account, access to the mobile payments services, access to formal savings, access to credit facilities, insurance and pensions (Mohseni-Cheraghrou *et al.*, 2012; World Bank, 2014). Other targets include sound regulated institutions with a formal governance structures and industry performance standards. Sustainable institutions that ensures continuity of investment and competitiveness, choice and reasonable for its clients are also among the targets (World Bank, 2014; Zauro *et al.*, 2016) for financial inclusion to enhance access to financial services.

In the opinion of Moghalu (2013), financial inclusion holds a promise of addressing universal poverty, underdevelopment, income inequality and welfare for the less privileged segments of the society. This is in line with the view of Kofi Annan (former UN Secretary-

General), who opined that financial exclusion is the great challenge before us and we have to attack it together so as to build inclusive financial sectors that will impact positively to the people’s lives. This means that the financially included society is such a society with enhanced economic activities, reasonable economic growth and development and with low level of poverty.

A survey conducted in Nigeria by EFINA (2008) showed that about 52.5 per cent (See Figure 1) of adults population in Nigeria were financially excluded. The Nigerian banking sector recorded 28.6 million people with the bank accounts in the population of over 177 million inhabitants (Aliyu, 2012), out of which 89.7 million were adults (Abiola *et al.*, 2015; CBN, 2012; EFINA, 2012; Sanusi, 2012). To accomplish these targets, developing countries including Nigeria met in Mexico to make a commitment to the financial inclusion popularly known as the “Maya Declaration”. The participating countries in the declaration improved in September 2012 from 20 to 35, and ended into a global policy forum referred to as the Alliance for Financial Inclusion (AFI) with its head office located in Cape Town, South Africa. Shortly afterwards, CBN and its partners launched the National Financial Inclusion Strategy (NFIS) in October 2012. The aim of this was to further reduce financial exclusion rate that stood at 52.5 per cent in 2008 to a targeted rate of 20 per cent by the year 2020. Specifically, access to payment services and savings that stood at 21.6 per cent and 24.0 per cent in 2008 should increase to 70 per cent and 60 per cent respectively by 2020. Access to credit, insurance and pensions should increase from 2 per cent, 1 per cent and 5 per cent to 40 per cent each respectively by the year 2020 (CBN, 2012; Kama and Adigun, 2013; Sanusi, 2012). As part of its reforms, CBN and other development partners introduced Islamic banking to have a robust financial system and provide alternative financial products in the country that will deepen the economy (CBN, 2012; Sanusi, 2011). Other reforms introduced by CBN and its development allies includes: agent banking, tiered Know-Your-Customer (KYC) requirements, financial literacy, consumer protection, linkage banking, implementation of the Micro Small and Medium Enterprises Development Fund (MSMEDF), credit enhancement programmes and introduction of Islamic banking and finance (Zauro *et al.*, 2016). These reforms were then backed up by various frameworks to ensure smooth implementation.

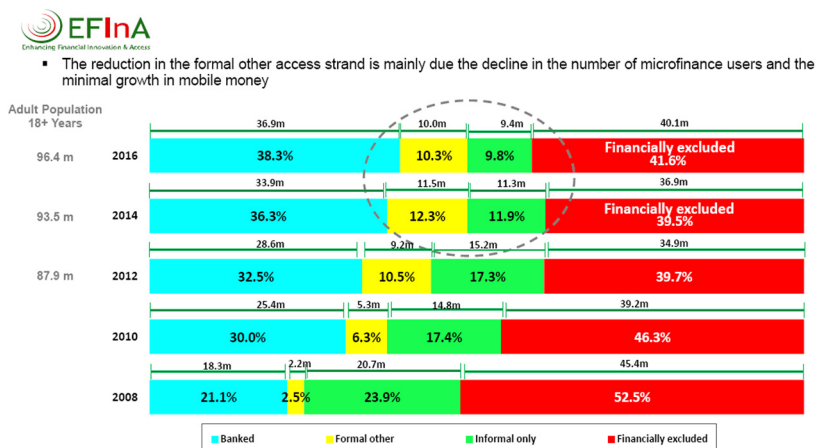


Figure 1.
Trends in financial access strand: 2008 to 2016

Source: EFINA Access to Financial Services in Nigeria surveys

2.2 Islamic perspective on financial inclusion

Previous studies such as [Dabla-norris *et al.* \(2015\)](#), [Mohseni-Cheraghlou \(2015\)](#) and [Aro-gordon \(2014\)](#) argued that financial inclusion promotes accelerated economic growth and development, reduce income inequality and alleviate poverty in the society. Financial services providers (both Islamic and conventional banks) can play a crucial role in financial inclusion by transfer of funds from the members of the society with excess to those with deficit and in need. As earlier noted, available literature showed that a significant proportion of the 2.7 billion people financially excluded members of the developing countries comes from Muslim-dominated countries ([Mohseni-Cheraghlou, 2014](#); [Iqbal, 2014](#)). According to [Iqbal \(2014\)](#), only 24 per cent of the world Muslims are financially included against their non-Muslims counterpart with 44 per cent. The former had only 14 per cent in Sub-Saharan Africa against the latter with 28 per cent. In Nigeria, research had shown that the Muslim-dominated region is always lagging behind in terms of having access to financial services ([Table I](#)).

Lack of adequate collateral to access conventional debt financing or their Islamic belief that prohibits dealings in such transactions involving interest, gambling and uncertainty may be the reasons. This issue may be addressed by adopting two suggestions by the [Mohseni-Cheraghlou *et al.* \(2012\)](#) that argues that the fundamental principles of Islam emphasise more on socio-economic justice, inclusion and sharing of resources between the haves and the have-nots. Islamic finance has an embedded risks management system, whereby profits and losses are shared among investors (providers of capital) and entrepreneurs (those who manage the business). This makes it different from the conventional banking where interest, gambling and transactions with excessive uncertainty are common and acceptable ([Chong and Liu, 2007](#); [Kammer *et al.*, 2015](#); [Sanusi, 2011](#)). That financial inclusion can be addressed by either:

Zones	Financial access	2012 (%)	2014 (%)	2016 (%)
North West	Formally included	23	35	24
	Informal only	14	9	6
	Financially excluded	64	56	70
North Central	Formally included	48	49	48
	Informal only	20	19	14
	Financially excluded	32	33	39
South West	Formally included	58	63	78
	Informal only	18	13	4
	Financially excluded	25	25	18
North East	Formally included	26	26	25
	Informal only	15	5	14
	Financially excluded	60	68	62
South South	Formally included	52	52	55
	Informal only	18	15	14
	Financially excluded	30	33	31
South East	Formally included	52	63	59
	Informal only	22	11	13
	Financially excluded	26	25	28

Table I.
Financial access by
geo-political zones

Source: EFInA Access to Financial Services in Nigeria 2012/2014/2016 survey

- promoting risk-sharing contracts; or
- using specific instruments of redistribution of wealth among the members of the society (Askari *et al.*, 2012; Iqbal and Mirakhor, 2013).

Both risk-sharing financing instruments and redistributive instruments such as Zakat, Sadaqah and Qardhul Hassan complement each other to offer a comprehensive approach to poverty eradication and enhance access to finance among the vulnerable poor especially Muslims communities in Nigeria and ultimately build a healthy and vibrant economy (Gelbard *et al.*, 2014; Zauro *et al.*, 2016).

The people affected by the problems of financial exclusion are usually individuals and social groups at the bottom of the social ladder, because of their poor economic conditions such as low income and perhaps lack of financial literacy (Čonková *et al.*, 2013). Therefore, it is necessary to consider the Islamic perspective of financial inclusion to help those members of the community who are the highly disadvantaged in one way or another, including the financially excluded, as part of the overall Islamic objective of creating a just and inclusive society. Therefore, there is the need to implement it in its true spirit to reduce poverty and inequality in Muslim communities (Ghazali *et al.*, 2016; Zainal *et al.*, 2016) afflicted by the high level of financial exclusion (Zauro *et al.*, 2016). Therefore, the practitioners should be and be seen to be different and have the aim of promoting Islamic norms and values without undermining its commercial viability as against the conventional or western economic system that is capitalist in nature (Yaqub and Bello, 2011). The next section will give the details of Islamic financial instruments under consideration.

2.3 Islamic financial instruments

In the context of Islamic worldview (Tawhidi epistemology), Man is an *Allah's* vicegerent (*Khalifah*) on earth and servant (*abd*) of *Allah* (*Qur'an*, 2:30). This means that man does not have his independent authority or absolute rights other than to obey the will of *Allah* (Haneef, 1997). In performing his role as a servant of *Allah*, man is ordained by *Allah* to engage in a charitable giving to the other destitute members of the society to enhance socio-economic justice and financial inclusion (Naceur *et al.*, 2015). The instruments to achieve this in the context of Islamic financial instruments are Zakat (Farouk *et al.*, 2018), Sadaqah (Aydin, 2015) and Qardhul Hassan (Mohseni-Cheraghloou, 2015; Zauro *et al.*, 2016). Figure 2 presents a framework of the relationship between Zakat, Sadaqah, Qardhul Hassan, Islamic finance and institutions and financial inclusion.

These will be discussed in details *vis-à-vis* their contributions to the concept of socio-economic justice and financial inclusion in Nigeria.

2.4 Zakat and its role towards socio-economic justice and financial inclusion

Among other pillars of Islam, Zakat is considered as the most prominent feature of an inclusive Islamic economic system that promotes socio-economic justice (Atia, 2010). Zakat is one of the five pillars of the Islamic faith coming only after a declaration of faith and prayer. Zakat means purity, development, blessings and praise and is the act of charity payment that is considered as a form of worship to *Allah* and social investment that every Muslim is expected to contribute (Saad and Haniffa, 2014). In practice, Zakat is an obligatory alms giving of 2.5 per cent annually to the less privileged Muslims in the society, and it appears in 82 verses of the Holy *Qur'an* (Atia, 2010). Some conditions are required to be fulfilled for the payment of Zakat to become obligatory. This includes *assets* type. These are the assets acquired with the intention of creating or generating wealth. Secondly, *haul*, which means the asset has to complete one full Islamic year for it to be subjected to Zakat.

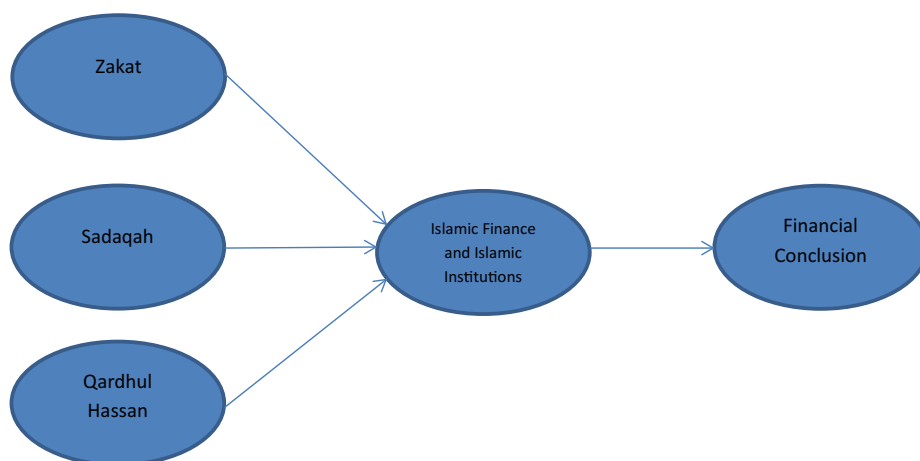


Figure 2.
A proposed study framework

Islamic year is 354.5 days in lunar calendar or equivalent to 365.25 days in the solar year. Finally, *nisab* is the amount required to reach a minimum threshold of equivalent to the market price of 85 g of gold (Saad and Haniffa, 2014). Zakat is considered to be an imperative economic tool to mobilize assets for the purpose of economic growth and development. *Allah* has mentioned eight specific groups of people that qualify to benefit from Zakat in the *Qur'an*, *Surah At-Taubah*, verse 60. These include the poor, the needy, the fund administrators, the sympathizers, those in bondage, those in debt, those in the cause of *Allah* and those in the wayfarer. Zakat and giving Sadaqah is strongly recommended in Islam as contained in various verses of the Holy *Qur'an* and hadiths of Prophet Muhammad (PBUH). Giving Zakat and Sadaqah are among the essential qualities of a believer. *Allah* promised believers abundant rewards in several verses of the Holy *Qur'an* if they give Zakat and Sadaqah. *Allah* also promise punishment to those who ungraciously withheld their the *Allah's* given wealth to themselves and deny the other deserving people, a punishment on the day of resurrection as contained in *Qur'an* 3:180 and 9:35 (Aydin, 2015).

As-Sadaqat (here it means Zakat) are only for the Fuqara (poor), and Al-Masakin (the needy) and those employed to collect (the funds); and to attract the hearts of those who have been inclined (towards Islam); and to free the captives; and for those in debt; and for Allah's Cause (i.e. for Mujahidoon - those fighting in the holy wars), and for the wayfarer (a traveller who is cut off from everything); a duty imposed by Allah. And Allah is All-Knower, All-Wise (*Qur'an*, 9:60).

They ask thee what they should spend (In charity). Say: Whatever ye spend that is good, is for parents and kindred and orphans and those in want and for wayfarers. And whatever ye do that is good, -Allah knoweth it well (*Qur'an*, 2:215).

(Charity is) for those in need, who, in Allah's cause are restricted (from travel), and cannot move about in the land, seeking (For trade or work): the ignorant man thinks, because of their modesty, that they are free from want. Thou shalt know them by their (Unfailing) mark: They beg not importunately from all the sundry. And whatever of good ye give, be assured Allah knoweth it well (*Qur'an*, 2:273).

And let not those who covetously withhold of that which Allah has bestowed on them of His Bounty (Wealth) think that it is good for them (and so they do not pay the obligatory Zakat). Nay,

it will be worse for them; the things which they covetously withheld shall be tied to their necks like a collar on the Day of Resurrection. And to Allah belongs the heritage of the heavens and the earth; and Allah is Well-Acquainted with all that you do (*Qur'an*, 3:180).

On the Day when that (Al-Kanz: money, gold, and silver, etc., the Zakat of which has not been paid) will be heated in the Fire of Hell and with it will be branded their foreheads, their flanks, and their backs, (and it will be said unto them): "This is the treasure which you hoarded for yourselves. Now the taste of what you used to hoard (*Qur'an*, 9:35).

Zakat plays an important role in enhancing access to finance and poverty alleviation and promoting socio-economic justice in the Muslims communities. It is considered as an Islamic financial instrument that encourages equitable distribution of wealth, for achieving social stability and solidarity, discouraging hoarding, and encouraging the circulation of capital in the economy (Atia, 2010). In the opinions of the mainstream clerics and Islamic economists, Zakat, can be used to achieve socio-economic justice, equity income redistribution among the contemporary Muslim societies facing the global challenges of poverty and financial exclusion (Raimi *et al.*, 2014). Some state governments in Nigeria such as Sokoto and Zamfara states had established an organized form of Zakat collection committees for effective and efficient Zakat collection. These committees determine the appropriate people to benefit from the funds so collated. Other states do not have an organized Zakat collection committee but being distributed at an individual level. Efficient and effective Zakat collection distribution and monitoring will facilitate access to finance by the destitute members of the society (Febianto and Ashany, 2012). This reduces the high level of financial exclusion especially in the Muslim-dominated northern region of Nigeria afflicted by high level of financial exclusion.

2.5 Sadaqah and its role towards socio-economic justice and financial inclusion

Sadaqah means "benevolence" and it is the broader umbrella of charity in that comprises Zakat, Qardhul Hassan and Sadaqah jariyah (sustainable giving). In Islam, it is required of a believer to give Sadaqah as an act of personal devotion to almighty Allah (Ginena, 2015). It is an established belief in Islam that Sadaqah purifies once wealth provided the giver performed such act with the sole intention of serving Allah. Several verses of the Holy *Qur'an* such made it clear that, Sadaqah should be given for the sake of Allah and that it will be repaid by Him plenteously in manifold. These verses include:

If ye disclose (acts of) charity, even so it is well, but if ye conceal them, and make them reach those (really) in need, that is best for you: It will remove from you some of your (stains of) evil. And Allah is well acquainted with what ye do" (*Qur'an*, 2:271).

But those among them, who are well-grounded in knowledge, and the believers, believe in what hath been revealed to thee and what was revealed before thee: And (especially) those who establish regular prayer and practice regular charity and believe in Allah and in the Last Day: To them shall We soon give a great reward (*Qur'an*, 4:162).

(Charity is) For those in need, who, in Allah's cause are restricted (from travel), and cannot move about in the land, seeking (For trade or work): the ignorant man thinks, because of their modesty, that they are free from want. Thou shalt know them by their (Unfailing) mark: They beg not importunately from all the sundry. And whatever of good ye give, be assured Allah knoweth it well (*Qur'an*, 2:273).

Sadaqah may be given publicly or surreptitiously to the deserving members of the society. Although given sadaqah openly is allowed, but Allah encouraged Muslims to conceal it and

make them get to those who are in dire need especially the poor and subjugated members of the society such as those in the Muslim-dominated northern Nigeria. In Islam, it is encouraged to give sadaqah from among those things you really need. Muslims are not expected to give sadaqah from those things he has exhausted their benefit and has no value to the recipient as it does not attract reward from *Allah* (Obaidullah and Khan, 2008). *Allah* promises the reward of charity in terms of having good life without fear and devastation in *Qur'an* 2:274. This means you will live in a life of general comfort and eternal life and happiness in this world. *Allah* promise a gain to the in the present life and hereafter to the Sadaqah givers and should express no fear as contained in the *Qur'an*, 30:39.

The major difference between Zakat and Sadaqah is that Zakat has been made obligatory by *Allah* as part of the pillars in Islam, whereas Sadaqah is voluntary charity (Mohseni-Cheraghrou, 2014). The objectives are basically similar, which are to encourage charitable giving and promote wealth redistribution and facilitate financial inclusion as an act of socio-economic justice and social solidarity in the society (Binmahfouz, 2012; Kamla and Rammal, 2013). Sadaqah in an Islamic society enhances social cohesion and strengthen the sense of belongings, unity and brotherhood. Sadaqah is not limited to the wealthy members of the society, but every Muslim is encouraged to imbibe the spirit of charitable giving as it is always rewarding to assist others in need. In Islam, Sadaqah may not necessarily mean material giving; it can be in a form of kind words, or even a smile to your fellow human being (Atia, 2010). Passing on knowledge to others is considered as Sadaqah as contained in the *Hadith* of ibn Majah 91/1 number 1844 (Atia, 2010). In Nigeria, Muslims are encouraged to give Sadaqah voluntarily by engaging in social work, feeding the less privileged members of the society such as destitute and Internally Displaced Persons (IDPs) (Yaqub and Bello, 2011). These services are more pronounced in the month of Ramadan, where rewards are expected to be 10 times the normal rewards. Other non-governmental organizations (NGOs), corporate bodies and government agencies are engaged in Sadaqah activities to assist others in need (Dogarawa, 2013; Raimi *et al.*, 2015). This act is not limited to Muslims communities but also affects non-Islamic societies as it is used to foster socio-economic justice, financial inclusion and promotes a harmonious living in a society where rich and poor are living together.

2.6 Qardhul Hassan and its role towards socio-economic justice and financial inclusion

Qardhul Hassan refers to the loans that are free from any benefits or returns to the lender and is more commonly known as interest-free loan (Bhuiyan *et al.*, 2012). Obaidullah and Khan (2010) referred Qardhul as zero-return loans that the *Qur'an* encourages Muslims to make available to the needy. Banks are allowed to charge borrowers a service fee to cover the administrative expenses of handling the loan. The fee should not be related to the loan amount or maturity (Mohseni-Cheraghrou, 2015). Furthermore, Qardhul Hassan to poverty approach means a beautiful loan characterized with some elements of goodwill, benevolence, and generosity (Mohseni-Cheraghrou, 2015). It is a loan granted by the lender without expectation of any return on the principal. From an Islamic point of view, people are mere custodian of wealth as a vicegerent (Khalifa), but the real owner is *Allah*. Therefore, it is justifiably reasonable for people to obey *Allah's* instruction to give it out at a zero per cent interest as ordained by the real owner (*Allah*) (Mirakhor and iqbal, 2014). Several verses of the Holy *Qur'an* as cited below enjoined Muslims to give Qardhul Hassan so that *Allah* will reward them and give them back in manifold. Prophet Muhammad (SAW) in a *Hadith* by Anas bin Malik showed that Qardhul Hassan attracts 18 times rewards from *Allah*, whereas sadaqah attracts 10-fold of its like in reward. The justification being that sadaqah may be

given to the beggar who asks while he has but only those in need demands for Qardhul Hassan (Aydin, 2015).

So fear Allah as much as you can; listen and obey, and spend in charity; that is better for you. And whosoever is saved from his own greed, they are the successful ones. If you give Allah Qardhul Hassan. He will double it to your credit and he will grant you forgiveness (*Qur'an*, 64:17).

Verily, those men and women who give charity and give Allah Qardhul Hassan, it will be increased manifold to their credit (*Qur'an*, 57: 18).

Who is he that will give Allah Qardhul Hassan? For Allah will increase it manifold to his credit (*Qur'an*, 57:11).

Establish regular prayer and give regular charity and give Allah Qardhul Hassan (*Qur'an*, 73:20).

Who is he that will loan to Allah Qardhul Hassan, which Allah will double unto his credit and multiply many times? It is Allah that giveth (you) Want or plenty, and to Him shall be you (*Al-Quran*, 2:245).

Verily, those who give sadaqa, men and women and lend to Allah a Qardhul Hassan, it shall be increased manifold (to their credit), and theirs shall be an honorable good reward (*Al-Quran Suratul Hud*, Verse No. 57).

If you lend Allah a Qardhul Hassan, He will multiply it for you. Allah is the most appreciating, the most forbearing (*Al-Quran Suratul Israel*, Verse No. 64).

Qardhul Hassan is an important tool for providing loan to low-income groups of the society in the framework of Islamic banking system of the country (Zauro *et al.*, 2016). Mohseni-Cheraghloou (2015) suggested that if implemented appropriately, Qardhul Hassan is potentially an effective mechanism to pave the path for a group of the financially prudent and deserving poor Muslim population who are unbanked or financially excluded to eventually become bankable and gain access to various forms of financial services and the many benefits associated with them. Organizing and making this micro-credit instrument aimed at income redistribution among the community can create the necessary structure and background for the development of poverty alleviation programs and enhancing financial inclusion through proper planning and implementation of micro-credit projects in the country (Mojtahed and Hassanzadeh, 2009). Qardhul Hassan offers a remarkable advantage over conventional microfinance loans assisting less privileged people to start-up micro businesses and also to attend to their petty personal and domestic financing needs (Aydin, 2015). This paper emphasizes on the Qardhul Hassan because of its importance on the income redistribution aimed at reducing the gap between rich and poor populace in the society. It is also believed that Qardhul Hassan will play a significant role in enhancing financial inclusion by facilitating access to micro credit among the Muslim community (Saqib *et al.*, 2015) and assist Nigeria in achieving its 80 per cent inclusion rate by the year 2020 (CBN, 2012).

3. Research implications and limitations

The implications of this paper are that it has provided critical suggestions on the ways Zakat, Sadaqah and Qardhul Hassan will contribute significantly towards reducing the financial exclusion rate that is currently put at 41.6 to 20 per cent by the year 2020. Similarly, it will enhance people's understanding of the Islamic income redistribution mechanisms as

means of enhancing financial inclusion. This will go a long way in assisting government, regulators, policy makers and other relevant stakeholders in formulating strategies of reducing the high level of financial exclusion, particularly among the Muslim-dominated northern region.

This paper has also encouraged the government and its development partners on the need to embark on massive enlightenment campaign through media and other avenues towards changing peoples' attitudes towards Islamic financial instruments as tools for enhancing people's financial literacy in the products and ultimately reduce financial exclusion. This will create a paradigm shift across all religious, ethnicities and genders to support government's programmes and various reforms in enhancing financial inclusion without prejudice to the religion or ethnicity. This is in line with the previous study by [Amin et al. \(2011\)](#) that showed the influence of religious obligation on the behavioural intention of Muslims. This paper has also contributed significantly to the existing literature on the doctrine of the Islamic moral economy, wealth management and financial inclusion. Finally, this study has recommended the adoption of Islamic financial instruments as tools for enhancing income redistribution and financial inclusion.

Similarly, stakeholders such as policy makers, religious organizations, civil society organizations and NGOs, including development partners such as Islamic Development Bank (IsDB), African Development Bank (AfDB), World Bank, International Monetary Funds (IMF), United Nations (UN) and Bill and Melinda Gates Foundation (BMGF), should intensify their effort towards liberalizing the perception of Nigerians *vis-à-vis* enhancing financial inclusion in the Muslim-dominated northern region.

However, the limitation is that, it's a mere conceptual study based on the existing literature; hence future researchers may subject it to the scientific test to offer empirical evidence regarding the roles of Zakat, Sadaqah and Qardhul Hassan towards closing the gap of financial exclusion in Nigeria. The present study concentrates on the conceptual perspective which according to Riloff, Wiebe and Phillips (2005) may produce a susceptible judgmental bias in research. Therefore, an empirical approach may be explored by the future researchers to establish better arguments on the role of Islamic financial instruments in enhancing socio-economic justice and financial inclusion. The findings of this study also reflect more of the Nigerian environment with the emphasis on the northern region which may not be generalized to other economies even in sub-Saharan Africa as they may have different political, social and economic system. It is therefore open to future researchers to replicate the study in other jurisdictions for better and fairer generalization.

4. Conclusion and recommendations

Based on the literature reviewed, it is apparent that Zakat, Sadaqah and Qardhul Hassan are suitable Islamic financial instruments for addressing the financing needs of the indigent and vulnerable segments of the society. This is because of their inability to participate in the highly risky business contracts, such as *Mudarabah* and *Musharakah*, and their low level of financial literacy. These Islamic financial instruments offer a comprehensive financing model to the Muslims communities towards enhancing socio-economic justice and financial inclusion among the impoverished and vulnerable people who are financially excluded. Being financially included will rekindle the economic activities and facilitate development in the affected country. This will ultimately build a healthy and vibrant economy that facilitates harmonious coexistence and solidarity between the haves and the have-nots in the same community. Similarly, the instruments offered by the modern-day Islamic financial service providers have strong historical pedigrees as evidenced by their application throughout history in various Muslim communities for social cohesion for socio-economic justice.

This paper argues that it is imperative to implement the Islamic social responsibility in its true spirit of to reduce abject poverty and social inequality among Muslim communities, such as Muslim-dominated northern Nigeria afflicted by the high level of financial exclusion and poverty. It has been established in this paper that charitable giving in the form of Zakat, Sadaqah and/or Qardhul Hassan, is an act of worship (*Ibadah*) to the immortal being (*Allah*) by his mortal servant (human being) who is a mere agent representing his principal on the surface of this earth. Similarly, human beings are vicegerent (*Khalifah*) sent to this world on temporary basis by their creator (*Allah*) to pursue His course preparatory to their return to him for a permanent life (hereafter). The wealth ownership rests with the *Allah* (the supreme owner of all things) and that human beings are mere custodians of the wealth in which He examines them on their ability to use it judiciously according to his dictates. Hence, it is religiously justifiable for people to engage in charitable giving as advocated by many verses of the Holy *Qur'an* and *Sunnah* of his Holy Prophet Muhammad (SAW). This is in line with the *Tawhidi* epistemology that it is not necessary to consume more to achieve greater happiness as the happiness rests with obedience to the will of *Allah* through greater spiritual, moral and intellectual excellence (Haneef, 1997).

This paper recommends the adoption of Zakat, Sadaqah and Qardhul Hassan by the policy makers in not only in Nigeria but also other countries determined to ensure socio-economic justice and enhance financial inclusion to in achieving these goals. These instruments can be used to establish endowment funds be managed by a set of religiously dedicated manpower with sound experience and adequate financial literacy. Similarly, the CBN in collaboration with other development partners banks, international Islamic organizations, corporate bodies and wealthy individuals that are determined to promote charity giving as an act of worship (*ibadat*) to *Allah*, establish Qardhul Hassan funds and take care of the financing needs of the poor and vulnerable members of the society, especially those with a high rate of financial exclusion. Finally, a coordinated grassroots-based Sadaqah collection and management societies should be encouraged. This is the function of Islamic scholars in terms of preaching the importance of charitable giving by all Muslims and using it to pursue some self-sustaining ventures by the beneficiaries. If these recommendations are adopted, it will guide the government, policy makers, regulators and practitioners in Nigeria as a remedy to the untold hardship suffered by the teeming Muslims population due to the high level of financial exclusion.

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