EVALUATING THE IMPACT OF *SHARIAH* COMPLIANCE AND THE USE OF ISLAMIC FINANCIAL PRODUCTS IN PROMOTING FINANCIAL INCLUSION: A CASE STUDY OF NIGERIA

By

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Abstract

Financial inclusion is considered a driver for inclusive economic development, through promoting investment, entrepreneurship, employment, education and healthcare. Therefore, it can reduce income inequality and poverty, and empower women in order to achieve inclusive economic development. Yet, 31%, or 1.7 billion, of the global adult population are financially excluded, six percent of which cited religious reasons for their exclusion. However, Islamic finance, which has recently gained prominent acceptance across the globe, is considered a viable method to promote financial inclusion, especially amongst developing economies, such as Nigeria. Despite this development, the impact of compliance with Islamic finance principles and the use of Islamic finance products on enhancing access to formal financial services remains unexplored in the Nigerian context.

Therefore, this study seeks to investigate compliance with Islamic finance principles, the use of Islamic finance products, and its impact on promoting financial inclusion in Nigeria. To do so, the study explored the theoretical background of Islamic finance and its relationship with financial inclusion; the determinants of financial inclusion, the influence of individual perceptions on the use of Islamic finance products, and the impact of Islamic finance in enhancing financial inclusion in Nigeria. The study employed both qualitative and quantitative methods and used both primary and secondary data. Statistical analysis was employed using STATA and EViews to examine the determinants of financial inclusion, the influence of individual perceptions on using Islamic finance products, and the impact of Islamic finance on promoting financial inclusion. The perceptions of experts, regulators and operators are measured through the qualitative analysis of semi-structured interviews.

Findings of the study suggested that Islamic finance has a positive relationship with financial inclusion, which was noted through both qualitative and quantitative analysis. The empirical investigations conducted in the study revealed that the determinants of financial inclusion (gender, age, income and educational attainment) influence financial inclusion. This means the greater the age, income, and educational attainment alongside being a male increases the likelihood of financial inclusion. In the use of Islamic finance products (IFPs) three of the variables suggested similar influences, except for educational attainment, which indicated that the higher the educational attainment of an individual, the lower their likelihood of using Islamic finance products. In accordance with the conceptual model of the study, the perceptions amongst adults generally indicated an influence on their use of Islamic finance products. The exception was perceived government benefits, which have a negative influence on the use of Islamic finance products, whilst the result revealed that there is substantial compliance to *Shariah* principles by both regulators and operators. The findings further revealed that Islamic finance products have no significant impact on financial inclusion in Nigeria.

This thesis has contributed both theoretically and empirically to the literature of financial inclusion by examining the determinants for using Islamic finance products and the impact of Islamic finance on promoting financial inclusion in Nigeria. This was achieved by quantitatively measuring and qualitatively considering the impact of Islamic finance on financial inclusion through the perceptions of individuals and stakeholders and their use of Islamic finance, as proxied by Islamic banking deposits in Nigeria. Therefore, the study contributed to the policy direction on financial inclusion and Islamic finance in Nigeria.

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Dedication

To Allah S.W.A be the Glory

This work is dedicated to my beloved Parent

Alhaji Bashir Baba Musami (Late)

&

Hajja Maimuna Zanna Habib

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I wish to firstly express my gratitude to Allah S.W.A for giving me life full of blessings to accomplish this journey. May HE (Allah) bless my life in this world and hereafter.

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Declaration

I declare that there is no part of this thesis has been submitted for the fulfilment of another qualification or degree from any other institution.

Chapter 1

Introduction

1.1 Background to the Study

Financial inclusion is associated with various economic incentives, which improves the economic welfare of individuals in a country as it facilitates safe savings, payments, credits and remittances in an economy. Financial inclusion has been especially effective in enhancing investment and entrepreneurship, reducing poverty, improving income equality, empowering women and generating employment among low income groups in an economy (Demirgüç-Kunt *et al*., 2008; Ardic *et al*., 2011; Demirgüç-kunt *et al.*, 2011; Bruhn and Love, 2014; Zins & Weill, 2016). Despite the importance of financial inclusion in the economy of a country, reports indicate that access to financial services is limited in many countries, particularly in developing nations. World Bank (2017) reported that 1.7 billion or 31% of the global adult population are yet to be served by formal financial services and about half of these excluded adults are situated in seven countries - Nigeria, China, India, Bangladesh, Indonesia, Mexico and Pakistan. Recent evidence also revealed that, among the group without access, Muslim adults are reported to form the majority, such as those from Sub-Saharan Africa (Demirguc-Kunt *et al*., 2013). Moreover, the adult population in Nigeria seems to be the mostly financially excluded within Sub-Saharan Africa. EFInA (2018) reported that 60.4% of adults in Nigeria are not using banking services, 45.3% are not saving, 69.0% are not accessing credit, and 36.8% are totally excluded from accessing formal financial services. Furthermore, Muslims dominated Northern region in Nigeria are recorded to represent 70% to 75% of the financially excluded adults.

However, the introduction of an Islamic financial system has been crucial in facilitating financial inclusion among economic agents, especially in Muslim countries. Recently, the Islamic financial industry has experienced a massive growth in its assets, from 150 billion to 1.8 trillion dollars; this is coupled with deep penetration into developing economies, such as Nigeria (Gelbard *et al.*, 2014; Leon and Weill, 2016). "*Islamic finance addresses the issue of* *financial inclusion or access to finance from two directions-one through promoting risk sharing contracts that provided a viable alternative to the conventional debt-based financing. The risk sharing instruments created window for Islamic micro financing, micro insurance and the other through specific instruments of the wealth creation among the society*" (Mohieldin *et al.*, 2012, p.55). Considering the potency of Islamic finance in the area of financial inclusion, Demirguc-Kunt *et al*. (2013) argued that Islamic finance remains a viable way of converting financial exclusion in an economy, especially among the less privileged segments of Muslim-dominated economies. Therefore, the introduction of Islamic finance reduces financial exclusion by accelerating savings and enhancing financial innovation (new financial products) in order to suit the demand from investors, depositors and borrowers to increase participation in formal financial systems Gheeraert (2014) and stimulate competition in the financial sector (Beck et al., 2013). Thus, this enhances inclusive economic development (Mohieldin *et al.*, 2012; Imam and Kpodar, 2013; Ben Naceur *et al.*, 2015; Gheeraert and Weill, 2015).

Despite this development, there is a dearth of empirical evidence on the impact of Islamic finance that considers compliance with Islamic finance principles and the use of Islamic finance products in Nigeria. Therefore, the aim of this study is to evaluate the compliance level of regulators and operators to the Islamic financial principles and to investigate the use of Islamic financial products by the adult population and its consequent impact on financial inclusion in Nigeria.

1.2 Motivation of the Study

The motivation for this study is the Nigerian financial system, which displays a strong financial infrastructure (see Nigeria Monetary policies series No. 48 of 2014). The financial sector that endured the global financial crisis 2007 to 2008 and its subsequent economic reforms (IMF, 2013). These two facets substantiate the sector's robustness. Despite this achievement, the industry could only serve 63.2% of the country's adult population. This suggests that a significant number of economically active adults in Nigeria are dissuaded from the economic effects of financial inclusion (as discussed in section 1.1 of this chapter). In order to reverse the trend, and as a signatory to Maya Declaration 2011, the Central Bank of Nigeria initiated a National Financial Inclusion Strategy (NFIS) aimed at achieving 80% financial inclusion by the end of 2020 (Aro-gordon and Aro-gordon, 2016).

This study is also heavily inspired by the evidence from the literature which suggests a positive association between financial inclusion and Islamic finance, especially among Muslim adults (Gheeraert, 2014; Ben Naceur *et al.* 2015). Thus, with a large Muslim population in Nigeria, Islamic finance could lead the way to promote financial inclusion in the country (Babatunde, 2014). Literature also documented various studies on the role of Islamic finance on financial inclusion, yet the impact of compliance with Islamic financial principles and the use of Islamic finance products in enhancing financial inclusion in Nigeria remained unexplored. Therefore, there is need to explore the contribution of Islamic finance in promoting access to financial services in Nigeria by examining the level of compliance with the principles underpinning Islamic financial institutions and the determinants for using Islamic finance, the factors influencing the use of Islamic finance products (IFPs), and the impact of Islamic finance in promoting financial inclusion in Nigeria.

1.3 Research Aim and Objectives

The aim of this study is to investigate the impact of Islamic finance in enhancing financial inclusion in Nigeria through assessing compliance with the principles of Islamic finance by the Islamic financial regulators and operators and the use of prevailing Islamic finance products by the adult population in Nigeria.

Accordingly, following objectives are developed to actualize the aim.

1. To critically appraise theories on the rules of Islamic finance and its relationship with financial inclusion.
2. To examine the determinants of financial inclusion in Nigeria.
3. To examine the awareness, access and perceptions of the adult population toward Islamic finance products and the influence on its use in Nigeria.
4. To investigate the impact of Islamic finance on promoting financial inclusion in Nigeria.

5. To investigate compliance with the Islamic finance principles by the Islamic financial institutions in Nigeria.

1.4 Research Questions

Accordingly, this study aimed to answer the following research questions:

1. What are the implications of Islamic finance principles on financial inclusion?
2. How do the demographic attributes of adults influence financial inclusion in Nigeria?
3. How does the awareness, access and perceptions of adults toward Islamic finance products influence the use of Islamic finance products in Nigeria?
4. Has the introduction of Islamic finance promoted financial inclusion in Nigeria?
5. How do the regulators and operators comply with *Shariah* principles?

1.5 Research Contribution

This study provides practical, theoretical and policy making contributions. Practically, the study findings will assist the regulators and operators to develop more effective strategies that promote greater access to financial services, thereby expanding the level of financial inclusion in the country. On this basis, the study will provide facts and figures about the level of financial inclusion. Similarly, the study will also assist the regulators to gain a better understanding of the determinant factors that influence access to financial services. However, this study could significantly influence the nascent Islamic finance industry in Nigeria, particularly towards improving their products and services to the optimal level, which could lead to financial inclusion, especially among Muslim adults in the Northern part of the country where financial exclusion predominates. Although there is convincing evidence in the literature on the significance of financial inclusion and Islamic finance on inclusive development, there is a paucity of empirical evidence in the Nigerian context. Hence, this study will contribute to the existing body of literature by providing insights into the relationship between the development of Islamic finance and financial inclusion in Nigeria.

Theoretically, which also forms part of the novelty of this thesis, the study adopted the Theory of Planned Behaviour and Stakeholder Theory to examine the factors influencing individual behaviour to use Islamic finance products (IFPs), and compliance with Islamic finance principles, respectively. Consequently, a theoretical model is developed to examine the influence of individual perceptions on use of Islamic finance products. Hence, the study will provide additional evidence on the global relevance of the theory used in the study as it will further justify the theoretical postulations as well as the credibility and reliability of the guiding framework used by Islamic finance in their operation, which is drawn from *Shariah* principles and concepts. The methodological contribution of this study is the empirical examination of the influence of individual attributes on the use of Islamic finance.

In terms of policy contribution, this study will provide grounds for new policy measures by the Government and financial sector stakeholders about existing policy on Islamic finance, the level of financial inclusion and the operational guidelines of Islamic financial institutions. Moreover, understanding the determinants will help to comprehend the gender diversity of financial inclusion/exclusion in the country. In addition, the findings of this study are expected to enhance the welfare of the Nigerian populace by providing recommendations to the Government, policy makers and other stakeholders on how inclusive financial services can be achieved and thus, the development of an approach to inclusivity that will impact the less privileged segments of society.

1.6 Theoretical Framework of the Study

The framework aims to examine compliance with Islamic finance principles by the financial regulators and operators, and to investigate the use of Islamic finance products by the adult population in Nigeria. This study uses stakeholder theory and the Theory of Planned Behaviour (TPB) to underpin the study; each theory is selected based on merit and purpose.

1.6.1 Stakeholder Theory

Stakeholder Theory demonstrates a contrasting view to the Shareholder Model and maintains that the decision-making process of an organization should involve all stakeholders. Moreover, the fiduciary duty of managers must protect the interest of all stakeholders, whilst the firm's primary objective should not be limited to the interest of shareholders alone but consider all stakeholders (Iqbal and Mirakhor, 2014). Therefore, corporations are not solely profit oriented but also socially responsible for the socio-economic burdens of a society by bringing together all stakeholders (Phillips, 2003). Corporations, such as financial institutions, are considered to have a significant role in the economic activities of a society. Thus, in return, they are expected to play a positive role in influencing the social wellbeing of a society (Dusuki and Abdullah, 2007). Accordingly, "*stakeholder theory is intended both to explain and to guide the structure and the operation of the established corporation*" (Donaldson and Preston, 1995, p.70). However, the theory was diversified by Donaldson and Preston (1995) into three dimensions - descriptive, instrumental and normative. The normative dimension concerns the morality and philosophy that guides the management and operations of a corporation. On the other hand, the descriptive and instrumental dimensions describe the empirical relationship between a 'traits' perspective and a corporation's operational outcomes (Jones and Wicks, 1999).

Therefore, this study is concerned with the normative aspect of Stakeholder Theory that centers on the ethical and moral conduct of a corporation, in order to examine the degree of compliance with Islamic principles by regulators and operators in providing a legal framework, financial inclusion initiatives, and products and services development. This aligns with the findings of Iqbal and Mirakhor (2004, p. 60) who state that "*the foundation of a stakeholder model is found in Islam's principles of property rights, commitment to explicit and implicit contractual agreements and implementation of an effective incentive system and principles of property rights and contracts in Islam offer theoretical foundations to acknowledge the rights of all stakeholders* ".

1.6.2 The Theory of Planned Behavior (TPB)

The Theory of Planned Behaviour (TPB) was formulated by Ajzen (1991) as an extension of the Theory of Reasoned Action (TRA), to explain and predict an individual's behaviour in a given situation. The evolution of the TPB encouraged the consideration of non-volitional behaviours which were ignored by the TRA (Madden *et al*., 1992). Given that an account relates a general disposition to a particular situation, Ajzen (1991) argues that the use of broad attitudes to predict behaviour in specific conditions could produce insignificant results.

Hence, TPB depicts an individual's performance of specific behaviour, which is determined by their intention, and this intention is, in turn, determined by their attitude, subjective norms and behavioural control over the given behaviour (Al-Suqri and Al-Aufi, 2015).

Therefore, based on this proposition, the study was further developed to explain additional variables related to the individual's intention to perform certain behaviour, such as the use of financial services, especially Islamic finance. Thus, additional variables, such as awareness, religiosity, perceived economic benefits, perceived government support, access and preference, are added to examine their influence on the use of Islamic financial products in Nigeria. This aligns with various studies that adopted Theory of Planned Behaviour (TPB) to examine human behaviour towards the performance of a specific action (Jaffar and Musa, 2016; Johan *et al.*, 2017).

1.7 Summary of the Research Methodology

The research process is influenced by the philosophical position adopted, which provides a process of developing valid knowledge including its base (Saunders *et al*., 2003). Hence, a philosophical paradigm is an essential part of selecting a research methodology, design or methods and these facets also position the researcher in relation to the study (Noella and Knipe, 2006). Therefore, a suitable research approach is determined by the nature of the research study (Morgan and Smircich, 1980). Saunders, *et al*. (2012) asserts that research questions, methodologies and interpretations unavoidably depend on the researcher's assumptions about knowledge and the nature of reality. Therefore, the research strategy and methods are determined by the philosophical assumptions of the researcher.

Accordingly, a pragmatic paradigm is the philosophical position for this study, which will allow for a combination of positivist and interpretivist paradigms (Johnson and Onwuegbuzie, 2004; Saunders *et al*., 2016; Johnson and Christensen, 2014). This also allows for the mixing of research approaches Johnson and Onwuegbuzie (2004), and aligns with Collis and Hussey (2014) who argue that paradigm adoption is determined by the research question(s). Accordingly, an abductive research approach is applied in this study. This accords with the views of Saunders *et al*. (2016) who argue that applying only one approach to a study is ambiguous as an inflexible division exists between inductive or deductive.

Furthermore, research is designed within one or more of the following three designs - explanatory, exploratory and descriptive (Mohammad, 2017). An exploratory research design applies when the information available to the researcher is limited or the researcher lacks sufficient information concerning the research problem (Joseph *et al.*, 2007). However, explanatory research implies the study of the occurrence of causal relationships between variables of interest (Sunders and Lewis, 2012). Finally, descriptive research design describes phenomena by collecting relevant information on the focus under investigation (Joseph *et al*., 2007). In line with the research objectives and research questions under consideration, this study is designed as an exploratory and explanatory study.

Accordingly, survey questionnaires are used to generate demographic profiles, awareness about Islamic finance products, access to such products, attitudes, intentions to use, preferences and other perceptions amongst adults toward Islamic financial products in Nigeria. However, the study conducted semi-structured interviews to gauge the supply side information from regulators, operators and Islamic finance experts about Shariah compliance. It also considered scholars' perceptions of the prevailing Islamic finance products and services, and their impact on the promotion of financial inclusion in Nigeria.

Moreover, to analyse and interpret determinants of financial inclusion, the influence of individuals' attributes on the use of Islamic finance products and the impact of Islamic finance products (IFPs) on financial inclusion in Nigeria, secondary data were generated from three sources - the World Bank's Global Financial Index (Global findex) database, Enhancing Financial Innovation and Access (EFInA) and Jaiz Bank Nigeria. The Global findex database was established by the World Bank in 2011; it comprises the survey data of 150,000 individuals from 143 countries, indicating trends on individual participation in formal financial services, and includes information on savings, payments, risk management and borrowings with formal financial services (Sarma, 2012; Cámara and Tuesta, 2014; Demirgüç-Kunt *et al.*, 2015). Jaiz Bank's monthly reports on the total assets, deposits and credits, and the financial inclusion annual rate were extracted from the Enhancing Financial Innovation and Access (EFInA) in order to analyse the impact of Islamic finance on financial inclusion in Nigeria. Consequently, this study applies mixed research methods by combining both qualitative and quantitative methods to provide robust, reliable and clear findings. This substantiates the views of Sunders *et al.* (2012) who assert that mixed research methods allow for the development of an in-depth understanding of the phenomena under investigation and provide findings with clarity.

1.8 Outline of the Thesis

This thesis is organised into chapters; each chapter addresses a specific aspect of the study. Chapter One considered the background and motivation underpinning the study, as well as the research contributions, aims and objectives of the study, an overview of research framework, a synopsis of the research methodology and an outline of the thesis.

Chapter Two presents the implications of Islamic financial principles on financial inclusion, where the concepts and emergence of Islamic economics are discussed. A philosophical foundation of Islamic economics, the principles of Islamic finance, an overview of Islamic finance, and the global trend in Islamic finance are presented; furthermore, the distinctive features of Islamic finance are also discussed. The role of Islamic finance in economic growth and Islamic finance principles are presented in this chapter. The chapter further explores various principles of Islamic finance, such as *Riba* (interest), *Maysir* (gambling) and *Gharar* (uncertainty); moreover, financial inclusion from an Islamic economic perspective is also explored. Finally, the chapter investigates how Islamic finance influences financial inclusion.

Chapter Three presents the theoretical framework of the study, where relevant theories are reviewed, and two different theories are presented (Stakeholder Theory and the Theory of Planned Behaviour) that are considered suitable for this study. Accordingly, literature on various theories is reviewed to form a basis to the theories adopted, such as Shareholder Theory, Stakeholder Theory, the Theory of Reasoned Action, and the Theory of Planned Behaviour. Moreover, Islamic principles are revisited in order to adopt an appropriate theory for the study. After scrutiny, the chapter adopts stakeholder theory to consider the supply perspective and TPB for the demand perspective, based on the theoretical framework developed for this study.

Chapter Four of this thesis discusses the concept of financial inclusion, barriers to financial inclusion and the economic implications of access to formal financial services. Indicators of financial inclusion are presented, as well as the determinants and measures of financial inclusion. Moreover, the global policy response to financial inclusion is discussed alongside financial inclusion strategies and stability in Nigeria.

Chapter Five presents the research methodology and methods of this study. Therefore, this chapter elaborates the philosophical paradigms and assumptions of social research, including how they have guided this study to adopt an appropriate research philosophy. Thus, the chapter discusses positivism, interpretivism and pragmatism as the pre-dominant research paradigms. As the study adopted a pragmatic philosophical position (denoting a combination of objective and subjective research approaches), the research selected triangulation as a data collection and analysis method. The chapter further explained the sources and methods of data collection and analysis for this study. The econometric model and variables specification are also discussed, and the pilot testing procedure adopted in this research was presented

Chapter Six presented the preliminary analysis and findings, which included descriptive statistics of the data, a multicollinearity test, a reliability test, and frequency. Moreover, the findings and the conclusions are presented in this chapter.

Chapter Seven, presented the multivariate analysis, where logistic regression was used to examine the influence of individual attributes on financial inclusion and the influence of individual perceptions on the use of IFPs. The chapter also presented the impact of Islamic finance on financial inclusion in Nigeria.

Chapter Eight, presented the analysis of the interview findings, which identified five themes. These include the implications of *Shariah* principles on financial inclusion; the compliance level by regulators and operators with *Shariah* principles; Nigeria's financial inclusion initiatives and its *Shariah* compliance component, and the level of awareness amongst adults including their attitudes and preferences toward the use of prevailing Islamic finance products in Nigeria.

Finally, Chapter Nine presents the summary of the research findings, including recommendations from the study, the research contribution, the limitations encountered, and suggestions for future study and general conclusion.

Chapter Two

Implications of Islamic Financial Principles on Financial Inclusion: A Theoretical Background

Chapter 2

Implications of Islamic Financial Principles on Financial Inclusion: A Theoretical Background

2.1 Introduction

This chapter provides a theoretical background to the relationship between the application of Islamic financial principles and financial inclusion. The chapter starts with the concept of Islamic economics, and then explains the emergence of Islamic economics and the philosophical foundations of Islamic economics. An overview and the distinctive features of Islamic finance and the global trends of Islamic finance are discussed. Furthermore, the chapter presents the principles of Islamic finance, its relevance to financial inclusion and the role of Islamic finance in economic growth.

2.2 The Concept of Islamic Economics

Economic and social activities are the fundamental building blocks of society. Accordingly, Islam stipulates rules in this respect as illustrated by the principles of Islamic economics. As the Islamic economic concept is still in a transitory stage, existing literature lacks substantive definition (Azid, 2010). However, several scholars have defined the concept. For instance, Azid (2010) defines Islamic economics as a set of economic and social knowledge that rewards the acquisition of wealth, but also redistributes wealth in accordance with Islamic rules and injunctions, with the aim of maximizing human satisfaction. Mohieldin *et al.*, (2011) assert that Islamic economics are concerned with the allocation of resources, production, redistribution and exchange in society, and the economic consequences of the application of these rules, as established in the unambiguous sources *Qura'an* and *Sunnah* of the Noble Prophet (Platonova, 2014). According to Khan (1984 p. 51) "*Islamic economics aims at the study of human falah achieved by organising the resources of earth on the basis of cooperation and participation*". Chapra (2011), argues that while conventional economic studies consumer and firm behaviour under perfect or imperfect competition, in the real world an agent`s behavior will fluctuate between these two extremes. Hence, there is a need to analyze the effect of both types of behaviour on the allocation and distribution of resources. This may not only build a more realistic and predictable situation but also help to formulate effective policies for the realization of system goals. Haneef (1997 p. 50) defined Islamic economics "*as an approach to, and process of, interpreting and solving man's economic problems based on the values, norms, laws and institutions found in, and derived from the sources of Islam.*" This implies that the discipline derives its tools and sources from *Sharia*. Haneef (1997) asserts that, since alternative worldviews exist, different economic systems are not only possible, but one can argue, natural and legitimate as well.

2.3 The Emergence of Islamic Economics

The Islamic economic system has gained recognition as a viable alternative system since the early Twentieth Century. The Islamic economic system offered a better alternative due to the shortcomings of socialist, capitalist and mixed economic systems. The Islamic economic system moderates between investors and capital operators, thereby promoting fairness and equity among various parties in financial dealing. Asutay (2013) contends that the perceived transformation in the Muslim world during the early period of the Twentieth Century led to the development of an economic system that conforms to Islamic principles. However, the capitalist economic system failed to address the economic problems of these regions. Thus, the subject of Islamic economics attracted various stakeholders including academics, to deliberate on the concept of Islamic economics. Hence, substantial literature on the Islamic economic paradigm emerged in the 1960's (Asutay, 2013; Kuran, 1995).

2.4 Philosophical Foundation of Islamic Economics

Unlike conventional systems of economics, the Islamic economic system formed its basis on the axiomatic principles of Islam. Arif (1985) asserts that the background of Islamic economic systems is derived from the philosophical stance of Islam. Hence, the early stage of the formulation of the Islamic economic system was dedicated to building these axiomatic underpinnings (Asutay, 2013). Therefore, Islamic economics are based on the following distinctive assumptions (Arif, 1985; Asutay, 2013; Azid, 2010).

2.4.1 Tawheed

Tawheed is the oneness and sovereignty of the creator God; this implies that every creation, including human beings, belong to God. Therefore, it is regarded as an injustice to associate any material things when worshipping God. "*The association of other gods with Allah (shirk) is labelled as a great injustice (zulm) and tawhid is the ultimate source of all justice on Earth*" (Azid, 2010 p3). Accordingly, justice and fairness are integral parts of *tawheed*; in other words, justice emanates from *tawheed*. This implies that the first point of justice is *tawheed*, whereas believers affirm that there is no other God than Allah (S.W.A). Thus, *tawheed* provides the framework for justice on this earth. Therefore, central to the philosophy of Islamic economics is *tawheed*. In this regard, individuals strive to get *falah* (salvation) by means of *ihsan* (beneficence). However, to get the same *falah* in the hereafter, individuals are expected to establish mutual social interdependence by helping economic agents through beneficence (Asutay, 2013). Accordingly, *tawheed* provides the necessary altruistic framework for justice in society (Azid, 2010).

Khan (1994) elaborated the conditions for *falah* as spiritual, economic, cultural and political facets; the spiritual condition encompasses humility in worshiping, attentiveness toward God, self-purification and constant repentance for sins. The other three conditions - economic, cultural and political - explain how individuals should spend a portion of their wealth in order to achieve social harmony and balanced economic development, and to build inter relations among individuals in society. Hence, the Islamic economic system establishes a conducive environment with morally oriented economic activities. However, cultural conditions inspire individuals to adhere to the Islamic divine arrangement of performing religious and social duties in society. The political condition stresses the role of Government and other organizations, and the responsibility of those in authority to enhance justice in society.

Social equilibrium (*Adalah* and *ihsan*) or social justice and beneficence, as elaborated by Asutay (2013), are the framework of *tawheed*, which implies the equality of individuals in the sight of the creator, and the implication of beneficence toward the individual's stance in the hereafter. Thus, these axioms strongly suggest fair treatment among economic members through *ihsan, and* the observance of social justice and benevolent behaviour among the people or agents of the economy and society (Asutay, 2013).

2.4.2 Tazkiya

This implies soul purification and the search for growth in harmony with the provision made by the Shariah. The moral and ethical conduct provided by the framework of *taskiya* delivers inclusive economic, social and individual growth in an environment. Azid, (2010) asserts that morally guided financial and economic activity provides the groundwork at micro and macro levels for inclusive growth that entails all stakeholders in an economy.

2.4.3 Rububiyah

Rububiyah is the progression path for perfection and sustenance in the economic, social and environmental activities of individuals as predetermined by the spiritual principles of Islam, which aim at perfecting the self and society (Azid, 2010).

2.4.4 Khalifah

Khalifah refers to the individual charged with the duty to establish the justice and treatment of everything as *amanah* or trust. "*The role of human beings as Allah's vice-regent on earth (Man who is at once as the vicegerent of Allah (S.W.A) has to play the role of a trustee, utilizing nature for the benefit of mankind*" (Azid, 2010, p.167).

2.4.5 Affirmed Behavior

Affirmed behavior reflects a positive attitude towards divine and human commands and relations. Having stated the axiomatic principles of Islamic economics, the implications of these principles have great impact on the design of Islamic financial products. However, it is important to mention the *tawheed* framework that forms the basis for Islamic financial principles. According to Iqbal and Molyneux (2005), the Islamic doctrine portrays two types of rulings (*akham*), namely worship (*ibadat*) and mutual dealings (*mu'amalat*). The *ibadat* concept concerns the relationship between human beings and their creator (ALLAH). In other words, only things that are established by divine sources are considered as worship and hence accepted by Islamic law. However, all rulings pertaining to worship (*ibadah*) must strictly accord with Islamic law as prescribed. On the other hand, mutual dealings (*mu'amalat*) show a concern for relationships among human beings. This establishes the permissibility of all transactions among human beings except those prohibited by God from the noble sources of the *Quran* and *Sunnah* of the Prophet (Iqbal and Molyneux, 2005). These essentialize sharing and collaborative economy as the mode of production. Iqbal and Molyneux (2005: p7) named this the “Golden principle of free choice”, which establishes a wide scope for the design of contracts, and thus opens windows for most Islamic financial contracts, such as risk sharing. The prohibition of certain activities is aimed at promoting social interdependence, fairness and justice, and to share the benefit of resources among individuals and society.

2.5 Financial Intermediaries and Economic Growth: The Role of Islamic Finance

The debate on the influence of the financial system on economic growth can be traced back to the work of Schumpeter (1912), who argues that financial intermediaries play a significant role in enhancing productivity through financing productive businesses, accelerating savings, diverting risk and conducting a proper evaluation of projects which often increases the investment costs for investors. The earliest studies that supported this view include Gurley and Shaw (1960); however, these views faced several challenges from studies such as Mckinnon-Shaw (1973). Nevertheless, King and Levine (1993) assert that the development of a financial sector stimulates economic growth by increasing investment and enhancing entrepreneurship, thereby promoting income distribution and reducing poverty. Similarly, Ross (1997, 2005) also suggests a positive correlation between financial sector development and economic growth. After decades of debate on the link between the conventional financial sector and economic growth, empirical literature now posits a link between the growth of the Islamic financial sector and wider economic growth. For instance, Gheeraert and Weill (2015) posit that Islamic banking stimulates the efficiency of macroeconomic variables, thus enhancing economic growth. Similarly, Imam and Kpodar (2016) find that Islamic banking stimulates inclusive financing, accelerates capital accumulation and savings, and hence contributes to improved economic growth. Strong evidence suggests a relationship between financial sector inclusiveness and economic growth (Arif, 1985; Demirguc-Kunt and Klapper, 2012). Beck et al. (2013) examined a business model, efficiency, asset quality, and the stability of Islamic and conventional banks across a sample of 22 countries, with both Islamic and conventional banks. However, an evaluation of the relative performance of both bank groups in the course of the recent global financial crisis confirms the Islamic bank is more stable, with high asset values, although an exception arises in terms of efficiency in which Islamic banks are less cost effective.

2.6 Principles of Islamic Finance

To comply with the Islamic ruling on *Mua'amalat,* and to adhere to Islamic finance principles, Islamic financial institutions avoided *ribah*, *gharar* and *maysir* in their practice (Siddiqi, 2005). This aimed to comply with the prohibitions and to establish compliance with Islamic financial principles (Iman and Mihajat, 2016).

2.6.1 Riba

Riba is an Arabic word associated with increment. Iqbal and Molyneux (2005) refer to *riba* as entailing an increase in the original value of a loan as a precondition for debt, regardless of its nature or amount. Big, small, fixed or variable loans are all considered *riba,* which can be either variable or fixed. Kuran (1995) states that Islam prohibits interest (*riba*) to avoid endangering society through exploitative financial transactions among individuals or groups of individuals; this is often associated with debt attached with predetermined increments on return, as documented in Islamic history (Iqbal and Molyneux, 2005). The prohibition of *riba* de-centres the capital by suggesting a participatory and sharing economy within *tawheed,* with the objective of removing the hegemonic power of capital, and equating it with other stake holders in generating value; this denotes a structural rather than an exogenesis meaning of 'sharing' meaning that particular modes of production are essentialized (Asutay, 2017). Islamic doctrines stipulate that any predetermined surplus as a condition for granting a loan as *riba*. In elaborating what constitutes *riba*, Iqbal and Molyneux (2005) posit that its concept encompasses any loan associated with predetermined value in money or services as a condition prescribed as *riba*. Thus, Islamic jurists describe contemporary conventional banking interest as *Riba*.

Apart from the well-known type of *riba* that occurs in loans characterized by predefined positive rates of return in excess of the principal, Iqbal and Molyneux (2005) assert that, in some instances, other forms of transaction also involve *ribah* Hence, they explain three types of *riba* called; *riba-al-nasa* or *riba al-qurud*, which represent a defined positive return in surplus to the principal, either monetary or non-monetary, and at a fixed or flexible predefined rate of return as a reward for lending. This is the type of *riba* explicitly stated in the holy *Qura'an*. However, the other two categories of *riba* are *riba al-buyu* and *riba al-nasiah*.

2.6.2 Gharar

The concept of *gharar,* which denotes uncertainty in business transactions, has been given various definitions by different scholars. Ḍarīr (1997) stated that *Gharar* refers exclusively to a situation of uncertainty or doubt involved in a transaction. In Abidin's view, *gharar* refers to doubts about the existence of a commodity for sale. Others exclude doubts from the concept of *gharar,* and exclusively refer to the unknown. This supports Ibn Hazm's argument that *ghara* applies only when the commodity in question is unknown both to the seller and the buyer. The final view combines both propositions, and classifies both doubt and the unknown as *gharar*. Iqbal and Molyneux (2005) attribute various elements that confer the quality of *gharar* onto transactions, which include: ignorance about time, quantity, quality, attributes and identity. These differences in the definition can be attributed to the jurisprudential perceptions of different scholars (Waemustafa, 2015). *Gharar* (uncertainty) in Islam derives from the concept of *Mukhatara* (risk), which is a fundamental component that validates contracts in Islamic financial systems according to Islamic law (Waemustafa, 2015). Therefore, the prohibition of *gharar* (uncertainty) in Islam intends to avoid possible unfavourable outcomes that can cause hardship to both parties. Therefore, Islam seeks to prevent the possible occurrence of deceit, loss or ignorance in business activities. Hence, the aim is to achieve authentic and risk-free commercial activities.

2.6.3 Maysir

Maysir is an Arabic word derived from *Al-yasar* (easy) denoting easy acquisition. Islam refers to *maysir* as the accumulation of wealth by participating in a game of chance, notwithstanding its capacity to deprive the rights of both parties (Akhter, 2015). Therefore, any commercial activities that involve a game of chance or gambling activities intended to acquire wealth are prohibited in Islamic financial transactions. "*Maysir is gambling, also any* *form of business activity where monetary gains are derived from mere chance, speculation or conjecture*" (Hameed, 2009 p. 44). However, verses from the holy Quran, such as (2:219 and 5:93), explicitly prohibit gambling. Accordingly, the Islamic financial system classifies any transaction between two or more parties that entails the possession of assets or wealth by one party at the expense or loss of the other party(s) (Iman and Mihajat, 2016). Also, the *hadith* of the prophet (S.AW), as reported by Abu-Huraira, states that "anyone who says to his friend: "come here, I will do *qimar* (that is kind of gambling) with him, and then he should give *shaadaqah.*" Therefore, typical examples of *maysir* in contemporary finance are financial contracts that involve pure speculation, derivatives and conventional insurance (Uddin, 2015).

2.6.4 Distinct Characteristics of Islamic Banking

As guided by Islamic principles and in working toward attaining *maqasid Shariah* (objectives of *Shariah*), Islamic banking opposes the conventional banking system. For instance, conventional banking uses collateral and interest to qualify potential lenders to access finance, while Islamic banks provide finances through a risk-sharing instrument. Hence, it provides access to credit for vulnerable individuals without collateral Imam and Kpodar (2016) and as such, reduces credit constraints (Leon and Weill, 2016). Unlike conventional banking, Islamic banking is not involved in certain transactions, such as complex financial instruments, high leveraging and wholesale funding. These complex convoluted instruments were thought to be behind the 2007-2009 global financial crises. Islamic banking rejects non-transparent financial products, such as derivatives, and encourages transactions based on profit and loss sharing that enhance financial inclusion and deter the inordinate financial risk associated with the banking crisis, hence stimulating real economic growth (Imam and Kpodar, 2016). In this regard, Islamic banking considers the nature of projects when financing. Moreover, gambling and toxic transactions are exempted from Islamic banking and financing, hence creating a morally conducive environment. This will encourage growth, as economic agents are morally guided. The specific prohibitions on interest and *gharar* promote risk sharing and the utilization of funds in the real sector. This, in turn, increases entrepreneurship and employment thereby facilitating the redistribution of wealth and opportunity in society (Askari et al., 2014).

The application of Islamic finance is not exclusively for Muslims; it holds wider appeal across jurisdictions. Islamic economics is the basis of Islamic finance. It gives special emphasis to social justice, advocates strong preference for profit and risk sharing, and offers equity-like modes of financing (Askari et al., 2014). However, critics believe that the system, which started four decades ago, has drifted from its original mission. According to Ayub (2007) Islamic banking has not been able to portray itself as a socio-economic welfare-oriented system and does not seem to be directed to achieve the objectives set by its pioneering writers, such as Siddiqi, Khurshid Ahmad, Khan and Kahf, among others.

Islam forbids the presence of distinctions of class among members of a society where groups of individuals lead a luxury life and others suffer poverty or hardship (Qutb, 2000). The Prophet Muhammad S.A.W states that "*he does not believe in me who sleeps full-fed while his neighbor is hungry and he knows it*" The rationale for this prohibition is to stop the associated rancor and hatred, which undermine the very foundations of society; this is because they contain elements of selfishness and harshness that will corrupt the soul and conscience. Similarly, they may compel the poor to steal or rob or at least humble themselves and sell their honor and dignity in exchange for livelihoods (Qutb, 2000).

Islam disapproves of people being in a state of poverty or need because it desires to provide higher fulfillment over and above man's material needs. In other words, Allah has endowed human beings with nobility in addition to the provision of material things. "*We have given nobility to the sons of man and have carried them by land and sea; we have given them provision of good things and have given them great preference over many of the things, which we have created*." (Quran,17:72) According to Qutb (2000), if man fails to realize this nobility he might be reduced to the level of animals or even less, because he is too distracted trying to fulfill his material needs for food and drink.

On property rights *Allah* says, "*men shall have a portion of what they have earned, and women shall have a portion of what they have earned*" (Quran, 4:36).

"*Give orphans their money, and do not exchange the good for the evil*" (Quran, 4:2, 18:81).

According to Maghrebi and Mirakhor (2015), the problem of economic equilibrium and stability in financial systems has been difficult to attain through the financing of debt. The authors add that debt unjustifiably transfers the burden of potential losses from financiers to entrepreneurs; even at microfinance levels, this increases systemic risk, distorts economic incentives and renders financial regulation even more complex. The primary function of the financial sector is to develop the real sector, which is a mission drafted in the current conventional system of finance. On the contrary, risk sharing in Islamic finance has the potential to ensure economic growth with financial stability and to promote financial inclusion through the development of entrepreneurship. The Kuala Lumpur Declaration of 2012 refers to this economic role of sharing, whereby a group of leading *Shariah* experts and economists reached a consensus on the essentialization of risk sharing in Islamic finance and any business venture. The assumption of conventional economics regarding the automatic sharing of the fruits of economic growth through a trickle-down effect is unproven as growth, in many instances, widens inequality (Maghrebi and Mirakhor, 2015). The proponents, for instance, assume that finance is accessible by all. If this condition does not hold, then those without access are bound to suffer increasing income and wealth inequality, depending on other environmental and economic realities.

However, in their seminal work, Stiglitz and Weiss (1981) examine the market imperfection that rationed out poor borrowers from accessing credit. According to them, banks that issue loans are concern with the interest rates they charge and the riskiness of loans. However, they argue that, even the interest that banks charge affects the riskiness of the pool of loan by either a) by sorting potential borrowers through adverse selection; b) affecting the action of borrowers, namely incentive effects. Both actions arise from imperfect information in the credit markets. Those who are willing to pay high interest rates, on average, are likely to be worse borrowers because they perceive their probability of repayment to be low. Hence, a high interest rate, on average, increases the risk that borrowers will not repay the loan. This, in turns affects the profitability of the bank (Stiglitz and Weiss, 1981). In addition, there is disequilibrium in most cases, thereby leading to excess loanable funds of labor in the market. Interest, or “the problem of interest” coined by Eugen Von, (1895) and John Maynard Keynes, accrues without genuine sacrifice (cited in Askari *et al*., 2010). Maghrebi and Mirakhor (2015) argue that compounding interest is conducive to wealth accumulation at an accelerated rate and favors rentiers Piketty (2014). This points to the contradiction of capitalism, which is reflected in the breakdown of relations between the growth rates of capital and the economy. An ex ante basis is the predetermination of a private rate of return of capital, in which the economy's rate of growth is only known on an ex-post basis and thus destabilizes the economy. The author demonstrates that this destabilizing force is represented by a tendency for the rates of return to exceed growth rates over prolonged periods.

Askari et al. (2014) argue that, in an Islamic financial system, "*the rate of return to capital is neither a purely monetary phenomenon determined in the money market by the demand and supply of money, as in a Keynesian model, nor is it purely determined by the real demand for and supply of real savings, as in the classical model. Instead, the rate of return to capital is determined by the rate of return to ownership position (equity) related to marginal product of capital as well as to the portfolio balance equilibrium.*" Hence, in this system, the rate of return r depends on the observed growth rate g, such that $r = f(g)$.

On the other hand, Maghrebi and Mirakhor (2015) argue that the core principles of Islam emphasize social justice, inclusion, and the sharing of resources between rich and poor. Hence, Islamic finance addresses the issue of financial inclusion through promoting risk-sharing contracts (against debt-based conventional finance) and specific instruments of wealth redistribution, such as *zakat* and *waqf*. Instruments in Islamic finance have historical roots and were applied by various Muslim societies in the past (Maghrebi and Mirakhor, 2015). The authors further argue that instruments offered by Islam, if implemented in true spirit, can lead to reduced poverty and inequality in Muslim countries.

The argument by Maghrebi and Mirakhor (2015) centers on the essential nature of risk sharing that influences positive economic growth. Given the central contradiction of capitalism on wealth income inequality, equity financing is therefore more efficient and more equitable for financial inclusion (Maghrebi and Mirakhor, 2015). This suggests that conventional risk transfer is an asymmetric exposure to economic risk and does not promote economic justice (Maghrebi and Mirakhor, 2015; Askari *et al*., 2010; Mirakhor, 2010). However, Maghrebi and Mirakhor, (2015) argue that for a desirable outcome, it is crucial that the institutional, regulatory and administrative structures promote the type of financial intermediation that allows for efficiency and equity to be achieved simultaneously. They further argue that financial inclusion through risk sharing is superior in terms of resource mobilization through a larger pool of savers rather than borrowers. They add that a financial system that allows for greater financial inclusion based on risk sharing and mutuality is more conducive to financial stability and shared economic prosperity.

Given the objectives of Islamic economics and the role of financial inclusion in contemporary economies, it can be argued that an inclusive financial system that achieves a mode of Islamic finance through risk sharing can be a force to realize the *Shariah* objectives of attaining social justice and inclusion, and hence, economic development.

2.7 Compliance with Islamic Finance Principles

Islamic financial institutions are guided by Islamic principles (*Shariah*) whilst the theoretical postulation of Islamic financial principles suggest a strong positive association between Islamic finance and financial inclusion, as elaborated in the preceding sections of the study. Therefore, to make Islamic financial institutions operational, there must be compliance with the principles underpinning Islamic finance (Grais & Pellegrini, 2006). Hence, it is important to establish a legal framework that guides Islamic financial institutions and adopts international Islamic financial standards, such as the Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI) (Alkali & Alkali, 2017). Thus, Nigerian financial regulatory authorities established a regulatory framework for the supervision and regulation of financial institutions operating Islamic finance products (Momodu, 2013). Accordingly, the Central Bank of Nigeria (CBN) guidelines clearly specify that Islamic financial institutions and other financial institutions operating Islamic financial products should establish a *Shariah* Advisory Committee of Experts (SACE) (CBN, 2010). Other measures include the amendment to the Banks and Other Financial Institutions Act (BOFIA) to incorporate theoretical definitions of Islamic financial institutions, and the institutionalization of accounting reporting requirements for Islamic financial institutions. This includes the Central Bank of Nigeria Act 2007, the International Financial Reporting System (IFRS) and the Accounting and Auditing Organization for Islamic Financial Institutions (Alkali & Alkali, 2017).

However, there is a dearth of literature focusing on compliance with Islamic financial principles, which, if adhered to, have the capacity to attain financial inclusion as elaborated in the preceding sections of this chapter. Accordingly, it is an objective of this study to investigate compliance with Islamic financial principles by Islamic financial regulators and operators.

2.8 Contemporary Islamic finance

Islamic finance is a branch derived from Islamic economics which is characterized by the prohibition of interest, uncertainty and financing of harmful activities, as guided by Islamic principles (Kammer *et al.*, 2015). It is based on concepts of social and economic justice and the fair sharing of resources (Ayub, 2007). Ultimately, the philosophical strands of Islamic finance are based on Sharia Law (Imam and Kpodar, 2016). Islamic finance advocates risk-sharing transactions where profit and loss are borne by both parties. This unique feature of Islamic finance attracted global attention as an alternative driver for inclusive economic growth and development. Therefore, the operations of Islamic banking and finance are restricted to the concepts of profit and loss sharing (Dar and Presley, 2000). The concepts of profit and loss sharing are disseminated into various categories, such as *Mudarabah* (partnership) and *Musharaka* (equity partnership). Profit and loss sharing are an Islamic mode of financing suggesting that Islamic financial institutions could provide capital to an investor (individuals or firms) who invests funds and the proceeds of an investment - whether profit or loss - will be borne by both parties (the financial institutions and the investors).

2.9 Distinguishing Features of Islamic Finance

The premise that made Islamic finance different from a traditional financial system is based on the distinct features of Islamic economics, as established by Islamic principles (Asutay, 2013; Azid, 2010). The unique characteristics of Islamic economics, which form the foundation of Islamic banking and finance, have been studied by various scholars, such as Azid (2010) and Asutay (2013). The principles of Islam place great emphasis on societal wellbeing through social justice and inclusion among members of society. Islamic principles embody social justice, inclusion and resource sharing among all classes of individuals in society (Mohieldin et al., 2012). Accordingly, Islamic economics are concerned with: (1) the rules of individual behavior pertaining to the allocation of resources, production exchange, distribution and redistribution; (2) the operational consequences of these rules, and (3) a motivational framework for compliance with rules, and policy recommendations to transition to the economic system of Islam from the traditional economic system (Mohieldin *et al.*, 2012).

Islamic finance emphasizes risk sharing contracts that neutralize both parties - the lender and the borrower - in terms of gain and loss. In a classic risk sharing contract, the investor (financier) and the entrepreneur or debtor must be susceptible to risk and or profit if any (Khan, 2010). This prohibits interest, uncertainty and the financing of harmful activities, as underlined in the Islamic principles (Kammer *et al.*, 2015). Thus, emphasizes risk-sharing contracts that promotes financial inclusion through *Shariah* compliant financial products, such as microfinancing and micro insurance, and are therefore affordable to micro enterprises and less privileged individuals in a society (Mohieldin *et al.*, 2012). Therefore, the philosophical strands of Islamic finance are based on *Sharia* Law (Imam and Kpodar, 2016). Islamic finance advocates risk-sharing transactions where profit and loss are bone by both parties with the exception of prohibited business transactions involving alcohol, weapons, pornography and pork. Accordingly, it is the obligation of the Islamic financial system to operate in the context of a risk sharing finance mode (Gheeraert, 2014).

The Islamic financial system, which initially started as a banking system in the 1960's, has now expanded to include other financial market mechanisms, such as Islamic insurance (*Takaful*), bonds (*Sukuk*) and capital markets (Imam and Kpodar, 2016). Islamic banks act as financial intermediaries between investors and savers by offering financial services which dealing with economic activities based on ethics. This undermines transactions involving interest, speculation, and games of chance, as specified by the principles of Islamic economics which promotes social and economic welfare by enhancing inclusive financial services in an economy (Gheeraert, 2014).

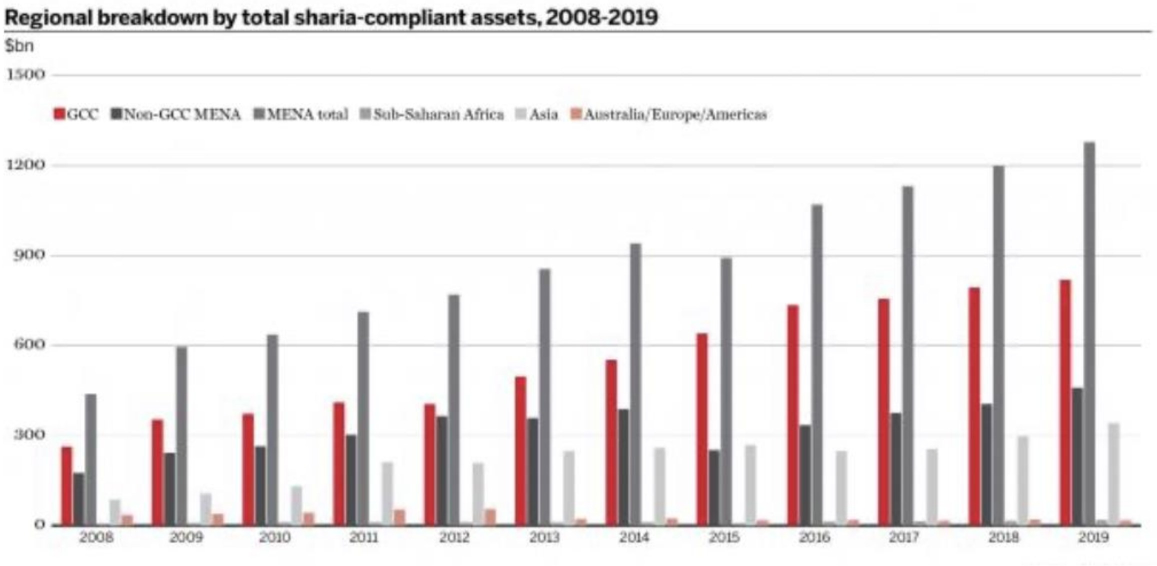
2.9.1 Global Trends in Islamic finance development

Islamic finance has recorded favorable growth within the last two decades, with increases in its global assets from 150 billion dollars to 1.8 trillion dollars and active penetration into southern Asia, the Middle East and some African Countries (Leon and Weill, 2016; Gelbard *et al.*, 2014). However, the total of the industry's Islamic assets are less than one percent

(1%) compared to its global counterpart in conventional finance. The Islamic finance industry is growing rapidly; some researchers estimate it has more than doubled in the five years from 2011 (Demirguc-Kunt, Klapper and Randall, 2013b). This growth rate is often associated with its risk-sharing nature and the rapid growth of oil producing countries, the significantly high Muslim populace in host countries, and their relevant legal framework (Gelbard *et al.*, 2014). Moreover, Islamic indices were established in two western capitals - New York and London - in the 1990's in line with Islamic principles (Hussain, 2004; Hussein, 2007). The formation of the Islamic Board of Financial Services (IFSB) and the *sukuk* (Islamic bonds) issuance has further heightened the recognition of Islamic finance as a diversification alternative in the economic sphere (Iqbal and Mirakhor, 2007).

Figure 2.1 presents the global Islamic financial industries assets by region. MENA region dominated the sectors assets, followed by GCC, non-GCC and Asia respectively, the least are from Europe, America and Australia.

Figure 2.1: Global Islamic Financial Trends



(The Banker's, 2019)

2.10 Islamic Financial Products

The Islamic financial industry is involved in various economic activities in the realm of financial services. The activities of the industry are strictly guided by the principles of Islam, which is a philosophy that emphasizes profit and loss sharing (PLS) and socially responsible investment. This proposition aims at promoting social justice, the redistribution of wealth and greater levels of equality in society (Mohieldin, 2012). Profit and loss sharing advocates that financiers and borrowers must share the outcome of their investment (profit or loss). The concept of socially responsible investment emphasizes that investment should not be centered on harmful activities but should concentrate investment on economically viable activities (Majeethia and Bose, 2014).

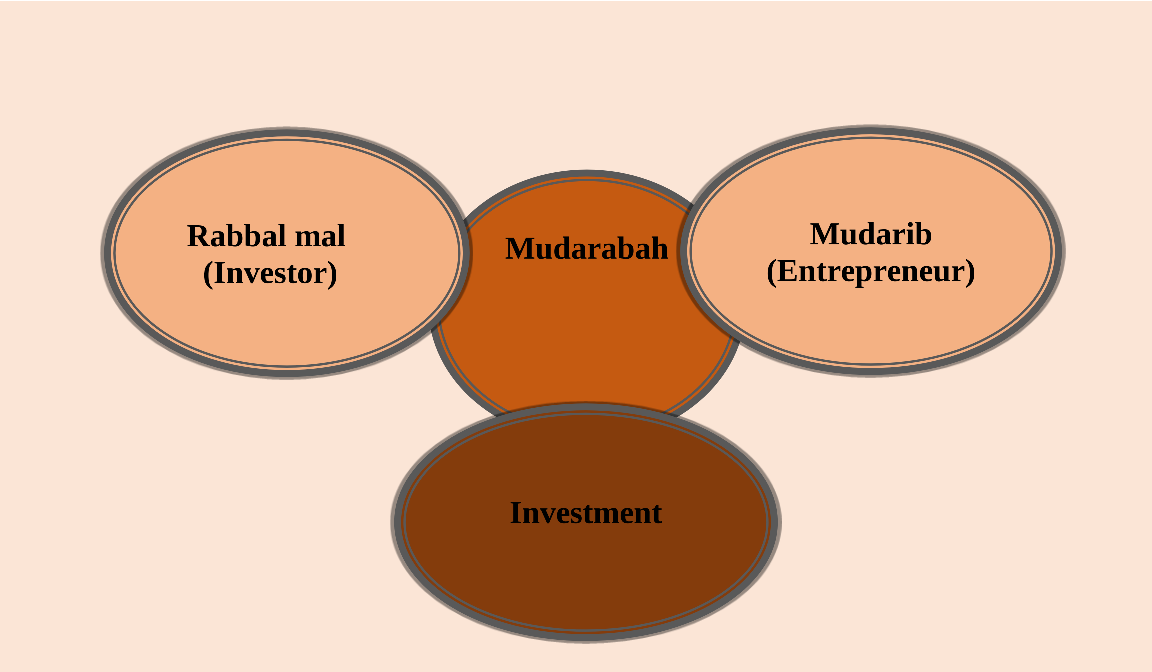
2.10.1 Profit & loss sharing

An important and distinctive element of Islamic finance is the concept of risk sharing. This is established by the philosophy of liability, which emphasizes that claiming profit is determined by the responsibility to accept and adopt the inherent consequences of investment, which could be profit or loss. This philosophical axiom is based on the '*Hadith'* of the Prophet (PBUH), which states that "*profit comes with liability*", meaning that the Islamic principle (*sharia*) conjoined profit with the responsibility to accept liability and thus, differentiates lawful profit from unlawful profit (Iqbal and Mirakhor, 2007). Therefore, the concept of profit and loss sharing initiatives, and risk sharing initiatives suggest a different way of bringing capital, labour and other stakeholders together to generate a sharing economy in such a way that promotes the real exchange of goods and services, no fictitious commodities, and no-commodification-oriented economy. The development of financing institutions is expected to fulfill such objectives – the goals of the Islamic moral economy de-center capital and essentialize human *falah* (success) and *ihsani* (benevolence) in society by referring to substantive morality. In examining the global distribution of funds in Islamic finance, it appears that, in the GCC and Malaysia, the major shareowners in the industry are biased towards finance which negates the basic objective of financial inclusion beyond religious inclusion (Asutay, 2017). However, the declining role of Islamic economists and the intervention of Shariah scholars facilitate finance engineers' replication of conventional products in the search for quick-fix solutions. This may produce suboptimal results for Islamic finance (Asutay, 2017). Accordingly, the following products are mainly practiced in contemporary Islamic financial institutions under the concept of profit and loss sharing (PLS).

2.10.2 *Mudarabah*

Figure 2.1 illustrates the *mudarabah* instruments of Islamic finance. This is a contract that involves two parties - the entrepreneur and the investor. The investor (the Islamic bank) provides funds and the entrepreneur provides expertise, with an agreed profit ratio shared between the two, and both parties bearing the loss, if any (Majeethia and Bose, 2014). Therefore, the *mudarib* (borrower) who possesses expertise will collect the funds from the *Rab al-mal* (financier), who is usually the Islamic bank, and manages the activities of the investment. Thus, the sharing of profit is predetermined and shared according to the agreed ratio. However, the bank should endure financial risk associated with the investment; thus, in the event of any loss, the financial loss is borne by the bank (Seng and Laws, 2013).

Figure 2.2: *Mudarabah*



(Source: Iqbal and Mirakhor, 2007)

2.10.3 *Musharaka*

This is a form of partnership where a group of people converges and provides capital and labour in a given investment to share the accrued profit or bear the loss, if any (Iqbal and Mirakhor, 2007). However, unlike *mudarabah*, where banks are the only financier, in *musharaka* more than one investor (person) or bank can finance (Hassan and Kabir, 2001). In other words, *musharaka* is characterized by the sharing of risk and profit among parties to a given project, whereas the investor or bank that provided the necessary funds and the entrepreneur share the loss and profit, if any. Profits are shared proportionately as predetermined losses will be determined by the equity contribution or expertise and skill contributed by the entrepreneur (Azmat, *et al.*,, 2013).

2.10.4 *Murabaha*

This is a sales contract between two parties - the financial institution and the customer - who request the purchase of a product or service on his behalf by the financial institution (Hassan and Kabir, 2001). A *Murabaha* contract is an arrangement where the client requests the purchase of an asset by an Islamic financial institution on his behalf, with an agreed deferred payment and fixed amount above the real cost price of the asset. Iqbal and Mirakhor (2007) assert that *Murabahah* is a popular Islamic financial product (IFPs) in the market and establishes a sales contract between a financier and entrepreneur. The financier purchases a given product, such as raw materials or another commodity on behalf of the entrepreneur or the borrower, with the agreement to pay back the cost plus a mark-up representing the profit margin, and a specific period is given to the entrepreneur to repay the funds, either in one lump sum or by installment as agreed.

2.10.5 *Ijarah*

Ijarah is a leasing contract that allows the transfer of usage to a third party for a certain period with specific payments agreed by both parties. The term *ijarah* denotes lease or hire. In other words, it is a transfer of usufruct (right to use an asset) for a given period. Under this contract the ownership and other maintenance and miscellaneous costs associated with the underlying leased asset must be borne by the lessor (Iqbal and Mirakhor, 2011). However, the underlying object under the leasing contract must be useful and beneficial to the lessee, whilst associated risk would be borne by the lessor and the mark up or return rate most be predetermined. Therefore, *Ijarah*, as a leasing contract, shares a certain similarity with the conventional leasing contract, which allows for the payment of periodic returns to the owner of the property (lessor). Like *Ijarah* in a conventional lease the risk associated with the property is borne by the lessor, but unlike *Ijara* (where the associated cost of maintenance is borne by the lessor), in conventional leasing the maintenance cost is borne by the lessee.

2.10.6 *Salam*

Salam is a sale contract that facilitates the delivery of a purchased product with instant payment. Under this contract, the buyer of the product agrees to make full payment to the seller, subject to the pre-arrangement of delivery at a given time with a specification of the given products under consideration (Iqbal and Mirakhor, 2011). However, *salam* is considered as debt base financing, and mostly concern agricultural financing. In this case, the financier provides funds to the entrepreneur for the purchase of a specified product that can be supplied at a future date (Jobst, 2008). Accordingly, the terms and conditions of the product, such as the product specification and delivery time, must be predetermined by both the financier and the producer or seller (Warde, 2000).

2.10.7 *Sukuk*

Sukuk is a debt based Islamic financial instrument for mobilizing funds to invest in profitable assets. *Sukuk* is an Islamic bond used to mobilize through the issuance of investment certificates (bonds). This allows the investors (bond holders) to acquire dividends from the returns of the underlying assets. Feisal Khan (2010) posits that the Islamic bond (*sukuk*) is a public or corporate debt base mechanism that is usually tied to a tangible asset and associated with variable returns. However, *Sukuk*, like other conventional bonds, is associated with certain risk, usually when there is financial unreliability on the side of the issuer (Al-Salem Fouad, 2009). On the other hand, certain regulations apply to the issuance of *Sukuk* which are considered to align with *Shariah* principles. These include the ownership of tangible assets which should be held by investors, as represented by their certificates, that the value of the certificates should reflect the prevailing market price of the corresponding tangible assets, and the proceeds of the investment must be paid to the investors after tax (Mohamed and Cennet, 2017).

2.10.8 *Wakala*

Wakala is an agency model where investor or principal delegate agent to manage fund or investment. Literally *wakala* can be defined as *"the act of one party delegating the other to act on its behalf in what can be a subject matter of delegation "(*AAOIFI)..The permissibility of *wakala* is derived from both the Quran and hadith of the prophet Muhammad (S.A.W); the evidence from the holy Quran is quoted as "*... so send one of you with this silver coin of yours to the city and let him look to which is the best of food and bring you provision from it* ...." (Surah Al- Kahf, verse 19). Hence, jurist from the ijma agreed that *wakalah* is permitted and endorsed based on the ta' *awun* concept (helping each other). Thus, scholars adopted the following as a condition for *wakala*. Firstly, the *muwakkil* should approve a particular *wakil* and inform him of his appointment; secondly, the agent (wakil) or the Wakil (Bank) make a particular assignment in issues that may be assigned, either with the obligation of a fee or voluntarily; thirdly, the particular transaction in the agency or *wakala* should be transparent and each party is informed and not permitted to assign someone to conduct an unidentified matter. Finally, the deal and the bargain should be agreed verbally or by suitable documentation (Muneeza, 2016).

Accordingly, *various Islamic financial institutions used wakalah* as an instrument to facilitate financial transactions. For instance, in Islamic banking the bank serves as a wakeel or agent for the depositors or investors, where the bank has a mandate to facilitate financial transactions between its customer and potential transaction partner or invest the depositor's funds in viable Shariah compliant investments and inform the investors of the potential profit and loss. In the event of lost, the investor bears the loss except in the case of fraud or negligence by the wakeel or agent (McMillen, 2012). Similarly, the Takaful industry uses a *wakala* with *waqaf* model to facilitate a pool fund and manage a client's contributions. This has been mostly accepted in GCC Countries and is the only accepted Takaful model in Pakistan (Malik et al, 2018).

However, *wakala* bolstered financial inclusion stride in Africa through agent banking services offered by financial institutions and mobile communication services providers. This innovation uses *wakala* concept to reach out to both banked and unbanked segment of the population, especially those in remote areas whom have limited access to formal financial services, by providing them deposits, savings and remittances at less cost (Venkatakrishnan & Eston, 2013). Feeble bank branches network, lack of documentation and poverty intruded the access to formal financial services in emerging economies such as Nigeria. Thus, deterred the economic agents from the impact of financial inclusion. Hence, Nigeria's regulatory authorities developed framework on agent banking which provided avenue for the provision of financial services through agency (*wakala*) such that mobile phone services providers can serve as agent (*wakeel*) for the financial institutions to provide remittance, deposit and payments services to the economic agents, therefore, enhance financial inclusion (Achugamonu et al., 2016).

2.11 Islamic Finance in Nigeria

The crises of insolvency in the Nigerian banking sector in 2009 and the subsequent reform that followed, coupled with growing agitation for the establishment of a non-interest banking system by groups and individuals who are mostly from the Muslim-dominated Northern part of the country led to the emergence of the Islamic financial system as an alternative to the conventional banking system (Olaoye et al. 2013; Abdullahi, 2018; Adua, 2019). According to the Central Bank of Nigeria, the idea of granting an operational licence to Islamic banking aimed to further stimulate the economy and promote financial inclusion by introducing different financial products and services to citizens. Apex Bank added that the non-interest financial regime of Islamic banking was expected to offer incentives and investment options to prospective investors (Eze and Chiejina, 2011).

In broad terms, the banking sector in Nigeria is regulated by the Banks and Other Financial Institution Act (BOFIA) 2004, the Companies and Allied Matters Act (CAMA) (2004) and the Central Bank of Nigeria Act (CBN Act) 2007. The widespread global adoption of the Islamic banking system and its advent in Nigeria necessitated the issue of guidelines by the government to properly supervise and develop the Nigerian non-interest financing and banking landscape, which is anticipated to become the hub of Islamic financial activities. Pursuant to its statutory mandate to regulate banking matters in Nigeria, the Central Bank of Nigeria (CBN) issued the following regulations, which "… enables all members of the public to participate in this alternative form of banking" (Attah, 2011).

2.11.1 Banks and Other Financial Institutions Act (BOFIA) 1991

This act is the earliest legislation in Nigeria that allows the operation of non-interest banking throughout the country. According to Sanusi (2011) the act recognises Islamic banking as "specialised banks", which are referred to as "non-interest financial institutions". Section 23 (1) of the Act exempted specialised banks from operating interest rates relating to the lending to or deposit of customers, as is the rule under Shariah commercial law. Mubarak et al (2020) opined that the enactment of the Banking and Other Financial Institutions Act (BOFIA) in 1991 was a significant step towards the emergence of an Islamic financial system in Nigeria. El-Mubarak et al (2020) noted that the Act significantly gave approval to the concept of profit and loss sharing financial arrangements, in line with Islamic financial principles. According to the authors, sections 23 and 61 of the BOFIA are significant for the emergence of Shariah compliant financial institutions in the country.

2.11.2 Framework for the Regulation and Supervision of Islamic Financial Institutions Services in Nigeria

This legislation aimed at regulating the activities of conventional financial institutions that opted to offer non-interest banking services (NIB). The CBN, however, directed banks offering NIB to maintain a separate record for non-interest banking activities. The Shariah Advisory Committee (SAC) was also formed for the purpose of reviewing and providing technical guidance on Shariah commercial jurisprudence to the CBN. Hence, this was addressed in: Section 33 (1b) of Central Bank of Nigeria Act 2007; Section 23(1) 52, Section 55(2), Section 59(1a), and Section 61 of the Banks and Other Financial Institutions Act and Regulation on the Scope of Banking Activities, and Ancillary Matters Section 4(1c) No. 3 of 2010. Moreover, further relevant provisions were made by the BOFIA, CBN, CAMA and related circulars and guidelines as issued by the CBN from time to time. With the publication of the "Guidelines for the Regulation and Supervision of Institutions Offering Non-Interest Financial Services in Nigeria" (CBN, 2011), the CBN opened its doors to interested organisations. Thus, they could forward their applications for evaluation and the subsequent granting of licences for the operation of non-interest banking services and products. The guidelines further offered a detailed description of the non-interest banking system on the perspective of non-interest financial services and products, which conformed to Islamic Law (*Shariah*) principles (Chima, 2011).

However, by releasing a draft exposure on a Non-Interest Deposit Insurance Scheme in 2010, the Nigeria Deposit Insurance Corporation (NDIC) also became involved in the preparation to establish an Islamic financial institution in the country. This document was released by the NDIC as a prelude to a final draft in order to solicit stakeholders' comments and contributions on the way forward for the insurance regulator (Vraylal, 2015).

Other regulatory frameworks that govern the activities of Islamic banking institutions in Nigeria include, but are not limited to, the following:

- Circular to all non-interest (Islamic) Financial Institutions on the Treatment of *Hamish Al Jiddiyyah* (Earnest Deposit) 2015;
- Guidelines on the Governance of Advisory Committee of Experts on for Non-interest Financial Institutions in Nigeria 2015;
- Guidelines on the Governance of Financial Regulation Advisory Council of Experts for Non-Interest (Islamic) Financial Institutions in Nigeria 2015;
- Guidelines on the Governance of Advisory Council Experts for Non-Interest (Islamic) Financial Institutions in Nigeria 2015;
- Guidelines on Tax Implication of Non-Interest Banking in Nigeria 2013;
- Guidelines on Shariah Governance for Non-interest Financial Institutions in Nigeria (2011);
- Guidelines on Non-Interest Window and Branch Operations of Conventional Banks and Other Financial Institutions 2011.

As per criteria in the regulation for the establishment of *Shariah* compliant financial institutions, the CBN directed all institutions offering *Shariah* compliant services and products to put in place a *Shariah* compliance review mechanism and a bank *Shariah* Advisory Committee (SAC) as part of their governance framework. Also, in accordance with the BOFIA 1991 section 39 (1), all banks operating non-interest products and services are not allowed to feature the phrase “Islamic” in their registered names.

2.11.3 The *Sukuk* Market in Nigeria

The origin of *Sukuk* can be traced to the fourth session of the Council of the Islamic *Fiqh*, the Academy of the Organization of Islamic Conference (OIC) in Jeddah, Saudi Arabia in 1988. *Sukuk* emerged from the demands of issuers and investors in Muslim countries as an alternative financial investment mechanism that complies with Islamic *Shariah* Law principles (Zulkhibri, 2015). Globally, in Muslim and non-Muslim countries, *Sukuk* is increasingly becoming a significant source of capital for infrastructural development. Thomas Reuters Zawyer (2015) contended that Sukuk is one of the important Islamic innovations of the last century. Moreover, according to Zulkhibri (2015) the *Sukuk* sector is the fastest growing of all global Islamic financing innovations.

In Nigeria, several laws have been released to regulate the issuance of *Sukuk*. They include; the Investments and Securities Act (ISA) 2007; SEC Rules and Regulations 2013; Rules Governing the Listing of *Sukuk* and Similar Debt Securities 2014, and all other laws passed by any of the three tiers of government in Nigeria.

The first issued in Nigeria and Sub-Sharan Africa was the N11.4 billion *ijarah*-structured *Sukuk* issued by the Osun state government in the South Western region of the country in 2013. Since then, the Federal, State and Local Governments and public and private enterprises have successfully either issued or subscribed to *Sukuk* bonds. For instance, the Federal Government of Nigeria issued an Ijarah Sukuk bond of N100 billion in 2017 as capital for the construction of roads across the country (Yunusa, 2019).

Nigeria’s prime regulator of the capital market, the Nigerian Securities and Exchange Commission (SEC), is its principal regulator of the *Sukuk* market. However, other secondary regulators exist with regulations pursuant to the relevant laws. The most important legislation for the *Sukuk* market in Nigeria includes: Section 17 of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI); Section 18 of the Companies and

Allied Matters Act, CAP C20 LFN 2004, and the Nigeria Securities and Exchange Commission Rules 2016. Furthermore, the SEC clearly recognises the following *Sukuk* types in its Rule 571 under the SEC Rules: *Sukuk Ijarah*, *Sukuk Istisnah*, *Sukuk Murabahah*, *Sukuk Musharakah*, and any other *Sukuk* may be approved by the commission in the future.

2.11.4 Prospects and Challenges of Islamic Finance in Nigeria

A major advantage, upon which the Islamic financial system will leveraged in the Nigerian financial industry, is its interest-free feature. However, the global blossoming of non-interest banking has huge potential in Nigeria. For instance, the establishment of Islamic banking in Nigeria will certainly improve the country's relationship with wealthy Middle Eastern countries and increase its position as a member of the Islamic Development Bank (IDB). The emergence of Islamic banking in Nigeria will also offer the opportunity to access infrastructure funding and support for agricultural projects in the country (Ogunbado & Ahmed, 2017). Vraylal (2015) commented that the Islamic financial system offers the opportunity to end the challenges associated with finance development, abject poverty and the high rate of financial exclusion among the youth in Nigeria.

While the unprecedented adoption and growth of the Islamic Financing system in Nigeria has the potential to project economic growth and make the country the continent's hub for Islamic financing, there are immediate issues of concern that may challenge this achievement. These are the usual challenges associated with the process of growth within any emerging enterprise. Hence, the Islamic Financial industry in Nigeria faces the following issues and challenges: Firstly, in product standardisation as, although products in the Islamic financial system comply with *Shariah* jurisdiction in principle, differences in opinion among Islamic scholars means that products are conceived and packaged differently from those of other national jurisdiction, hence a lack of standardisation across the globe. However, stakeholders, such as the Islamic Development Bank (IDP), the Malaysian Islamic Financial Services Board (IFSB), the Bahraini Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and others, have been organising international seminars, conferences and debates to settle their differences and develop standardised products and services. Secondly, inadequately skilled human resource, as Aliyu (2012) observed that the paucity of skilled workers in Islamic financial institutions represent a threat to the success of the sector.

Thirdly, there is a shortage of valuable talent in the global Islamic finance industry (Iqbal, 2007); moreover, those available do not fully understand Islamic banking, which may result in the misinterpretation of what constitutes *Shariah* compliant transactions (Brown, Hassan and Skully, 2007). Thus, institutions mostly hire staff from conventional banking institutions believing that they can easily learn the services and products on offer.

2.12 Financial Inclusion from the Islamic Economic Perspective

Central to the main features of Islamic economics is financial and social inclusion, as stipulated by *Shariah* objectives, which forms the basis for Islamic finance. Social justice and the inclusion and *sharing* of resources among the members of society are fundamental to Islamic principles. "Islamic finance addresses the issue of financial inclusion or access to finance from two directions - one through promoting risk sharing contracts that provide a viable alternative to conventional debt-based financing. The risk sharing instruments create a window for Islamic micro financing, micro insurance and the other through specific wealth creation instruments among the society" (Mohieldin *et al.*, 2012 p55). Islamic finance as a branch of Islamic economics is designed to carry out financial transactions in accordance with the principles of *Shariah*, where societal benefits are the primary objective in economic activities, while individual interest is sacrosanct. The propositions of the traditional economic approach, characterized by self-centered behavior, have led to the collapse of economic development (Platonova, 2014).

These axioms form the idea of risk sharing and wealth redistribution in Islamic finance. In this regard, Islam forbids *Riba* and speculation, hence it places greater emphasis on risk sharing contracts, with the aim of attaining financial inclusion through stimulating non-interest bearing financial instruments provided by Islamic banks, Islamic micro finance institutions and *Takaful* (Islamic insurance), and other Islamic financial instruments (Zulkhibri, 2016a). Consequently, these manifestations of Islamic principles have elevated Islamic finance in the global financial industry (Dusuki, 2008). In particular, Islamic banks' resistance in the face of the global financial menace of 2007/08 generated a favorable impression among stakeholders, policy makers and researchers (Maghrebi and Mirakhor, 2015; Asutay, 2013).

Islamic finance, as an Islamic economic unit, is characterized by the prohibition of interest, uncertainty and financing of harmful activities, which are all guided by Islamic principles (Kammer *et al.*, 2015) and are based on *Sharia* Law (Imam and Kpodar, 2016). Islamic finance advocates risk-sharing transactions where profit and loss are borne by both parties. However, business transactions involving alcohol, weapons, pornography and pork have been prohibited (*haram*). Accordingly, it is an obligation of the Islamic financial system to operate in line with Islamic principles (Gheeraert, 2014). The Islamic financial system, which initially started as a banking system in the 1960's, has now expanded into other financial market mechanisms, such as Islamic insurance (*Takaful*), bonds (*Sukuk*) and capital markets (Imam and Kpodar, 2016). Islamic banks act as financial intermediaries between investors and savers and facilitate financial transactions by offering financial services that deal with real economic activities based on ethics. They reject transactions involving interest, speculation, and games of chance as specified by the principles of Islamic economic. Hence, they promote social and economic welfare by enhancing inclusive financial services (Gheeraert, 2014).

The emphasis on financing the real sector economy is recognized by Islamic economists and mainstream economists, such as Shiller (2012) the Nobel Laureate in economics. According to (Shiller, 2012 p.7), "Finance is not about 'making money' per se. It is a 'functional' science in that it exists to support other goals – those of society. The better aligned a society's financial institutions are with its goals and ideals, the stronger and more successful the society will be.". According to Asutay (2017) this suggests 'de-centering finance' by essentializing the productive nature of the economy and human development as the essential modes of production. Thus, financialization *per-se* advocates that the commoditization of money is nothing more than a zero-sum game (Shiller 2012). Contrarily, finance within the spectrum of the Islamic moral economy is arguably embedded in the economy, socially responsible, and oriented toward sustainable development, with prospects of job creation and inclusive growth (Asutay 2017). He further argued that, "Islamic moral economy relates to substantive notions of morality and justice beyond the limitation of 'form-based understanding of *Shari'ah*.' Hence, Islamic finance within the Islamic moral economy's system relates to 'emancipating and empowering the individual' through defining and transforming individual social good through the ultimate objective of *falah* and *ihsan - ihsani* society."

2.13 Islamic Finance and Financial Inclusion

The philosophical stand of Islamic finance is social justice, as guided by the Islamic moral system (Imam and Kpodar, 2016; Pesendorfer and Lehner, 2016). This has been substantiated by the social responsibilities of Islamic banks and characterized by the provision of social welfare facilities to less privileged segments (Haniffa and Hudaib, 2007). Hence, Islamic finance stimulates financial inclusion through its various modes of financing, as opposed to the traditional interest based financial system. For instance, Imam and Kpodar (2016) argue that Islamic finance stimulates lending through risk-sharing instruments as opposed to the conventional banking system where collateral qualifies potential borrowers for access to credit. Islamic finance may therefore loosen constraints on credit. Consequently, it stimulates investment, increases savings (the accumulation of capital) and thus promotes economic development. However, the literature confirms that more adult Muslims, especially in Muslim countries, are unbanked, which thus reduces savings (Demirguc-Kunt *et al*., 2013). Accordingly, the introduction of Islamic finance accelerates savings by reducing financial exclusion, and increasing savings and financial innovation (new financial products) that suits the demand of investors, depositors and borrowers, and thus, increases participation in formal financial systems Gheeraert (2014) and stimulates competition (Beck, et al., 2013).

Leon (2016) study the impact of Islamic banking development on economic development, with particular emphasis on access to credit. Their findings suggest that Islamic banking is not associated with credit constraints; thus it can complement the conventional banking system. Hence, it promotes credit availability, fosters economic development through the provision of access to capital for investment and entrepreneurship. Moreover, it reduces unemployment, poverty and income inequality (Bruhn & Love, 2014) and plays an important role in business development and growth (Beck and Demirguc-Kunt, 2006) thereby enhancing financial inclusion. Studies reveal that a significant number of Muslims around the world are financially excluded. This is mostly associated with the interest based conventional financial system that dominated the financial market and the poverty level among Muslim communities. An empirical study by Demirguc-Kunt et al. (2013) revealed that Muslims are less likely to use formal financial services in an economy resulting in greater financial exclusion among Muslims.

On the other hand, social justice, income equality and poverty alleviation are the basic principles of Islamic finance, (Hassan, 2015). The recent growth in the industry and the underlining principles guiding Islamic finance demonstrates the eligibility of the sector in enhancing inclusiveness in financial systems, especially among Muslims. This attracts financial sector stakeholders. For instance, Mohieldin (2012) envisages the efficacy of Islamic banking and finance to improve financial system accessibility, stability and inclusiveness in developing countries. Given the lower level of financial inclusion in Muslim dominated countries and increasing reasons for religious self-exclusion, Islamic banking and finance has a substantial role to play in achieving financial inclusion (World Bank, 2014). On the other hand, a study conducted by Ben Naceur *et al.* (2015) on the relationship between financial inclusion and the development of Islamic banking in the Organization for Islamic Corporation (OIC) Countries, found that self-exclusion instigated for religious reasons is higher in OIC Countries than in non-OICs. Hence, Islamic banking and finance plays an important role in promoting financial inclusion. Similarly, religious motivated self-exclusion is more common among Muslim adults in Sub-Saharan Africa (Demirguc-Kunt et al., 2013). Babatunde (2014) postulated that, with the huge number of Muslims and high poverty level in Nigeria, Islamic micro finance has a significant role to play in reducing poverty and enhancing financial inclusiveness.

2.14 Conclusion

Based on the preceding discussion, Islamic principles have long provided a holistic way of life for human beings, which have successfully influenced present lives and will continue to do so hereafter. These Islamic principles provide a social and economic framework that individuals and societies can follow in conducting their day-to-day activities, especially by adhering to *Shariah* objectives. Accordingly, Islamic philosophers developed an economic system that conformed to Islamic principles to salvage the economic world from the exploitations of the capitalist system. This economic system provided a philosophical assumption that guides Islamic finance, which advocates risk-sharing finance. Such risk-sharing finance demonstrates a capacity to counter the financial exclusion that stems from an exploitative and self-motivated capitalist system of financing. Therefore, the chapter found that Islamic finance is informed by an inclusive financial system that is capable of enhancing financial inclusion among individuals and corporations and often excluded from formal financial systems for various reasons.

Chapter Three

Theoretical Background

Chapter 3

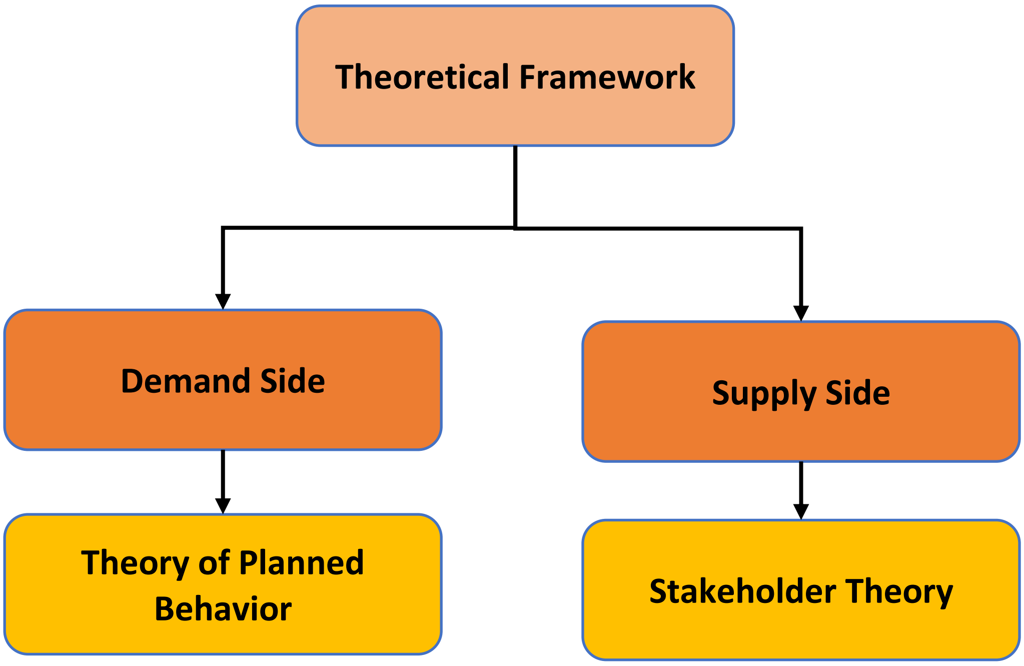
Theoretical Framework

3.1 Introduction

This study investigates the supply and demand side of financial inclusion by examining compliance to the principles of Islamic finance, the use of Islamic finance products (IFPs) and their impact on financial inclusion in Nigeria. After careful review of the literature on different theories, this study found that Stakeholder Theory and the Theory of Planned Behavior (TPB) are suitable to underpin the study. Accordingly, Stakeholder Theory is applied to form a basis to evaluate the compliance level of the supply side (regulators and operators) while the Theory of Planned Behavior is adopted to examine the influence of individual perceptions on use of Islamic finance products (IFPs) in Nigeria.

Figure 3.1 shows the theoretical framework adopted for this study. Further details on each theory and the reason for choosing them are discussed in the subsequent sections of this chapter. However, based on disagreements among scholars that considering either supply or demand side alone to investigate financial inclusion cannot provide accurate results, this study chooses to investigate both the sides in relation to financial inclusion (see for instance, Cámara and Tuesta, 2014; Sarma, 2012; Chakravarty and Pal 2010; Sarma, 2010). Accordingly, as the diagram depicts, the Theory of Planned Behaviour is adopted to investigate individual attitudes, preferences, awareness and the usage of Islamic finance products (IFP's). However, Stakeholder Theory is applied to investigate moral and ethical conduct of the supply side.

Figure 3.1: Theoretical Framework for the Study



3.2 Stakeholder Theory

Stakeholder Theory is widely used to explain the importance of various stakeholders in promoting organizational goals through inclusive participation by all stakeholders. This is because business organizations are the backbone of societal development and are not expected to be solely profit oriented. Instead, they should be socially responsible to the socio-economic burdens of society by bringing together all stakeholders (Phillips, 2003). Apparently, financial sectors are the prime organizations that drive the economic activities in a contemporary atmosphere. The Islamic perspective also opposes the notion that profit maximization is the sole aim of business organizations, as stipulated in Shareholder Theory (Freeman, 1984). Stakeholder Theory emphasizes that stakeholders can be any individual or group of individuals affected by the success of a business (Freeman, 1984). The theory is generally accepted as a driver in promoting the moral values in an organization, through ethical decision making among the management in favor of all stakeholders (Enyinna, 2013). He further argues that Stakeholder Theory advocates treating stakeholders with honesty, generosity and fairness. Moreover, based on the proposition that "philosophical ethics must provide human beings with guidance in all aspects of their lives … a normative theory of business is an attempt to focus" the general theories of philosophical ethics "exclusively upon those aspects of human life that involve business relationships" (Hasnas, 1998: p 20). Therefore, to consider theories of business as normative theory, it must encompass these principles of ethics in guiding business activities. Accordingly, Stakeholder Theory has fulfilled this criterion (Enyinna, 2013). Furthermore, Phillips (2003) argues that business organizations are the greatest social entities of the present day, and their responsibilities extend beyond shareholders to include consideration of the social burdens of society.

However, scholars disagree on the implications of Stakeholder Theory (Donaldson and Preston, 1995; Jones and Wicks, 1999) and it has been widely criticized, especially by rival Shareholder Theorists; this has led to further exploration of stakeholder theory. For instance, the Stakeholder Theory of firms offered by Brenner and Cochran (1991) tends to describe organizational operations and to predict organizational behavior. These theories have been challenged by Donaldson and Preston (1995), who categorize dimensions of Stakeholder Theory as normative, instrumental and descriptive, hence making the theory explicit in its applicability to a specific context. The normative dimension of Stakeholder Theory is concerned with the moral and philosophic values that guide the management and operation of corporations. On the other hand, descriptive and instrumental dimensions describe the empirical relationship between a trait's perspectives and a corporation's operational outcomes (Jones and Wicks, 1999).

3.3 Shareholder Theory

Shareholder Theory, which is centered on the notion that organizations and managers are responsible solely for maximizing shareholder interests, is well discussed in the literature. Friedman (1970) argues that, "the Social Responsibility of Business is to increase profits". Therefore, the primary goal of organizations is to maximize profits. Thus, the moral responsibility of managers is to work toward the shareholders' interest, while activities promoting long-term social welfare should be considered as long-term engagements to maximize shareholder profit (Saatci *et al.*, 2015). Friedman argues that so-called social responsibility is constituted by unrepresented taxation. Business is prone to lose the support of shareholders, employees and customers as a result of the cost of meeting social responsibilities (Mulligan, 1986). He critiques the idea of social responsibility and states "businessmen believe that they are defending free enterprise when they declaim that business is not concerned "merely" with profit but also with promoting desirable "social" ends; that business has a "social conscience" and takes seriously its responsibilities for providing employment, eliminating discrimination, avoiding pollution and whatever else may be the catchwords of the contemporary crop of reformers" (Friedman, 1970, p 1). This assertion was criticized by Mulligan (1986) who argues that Friedman's proposition lacks logical strength and is based on a false premise. Freeman (1994, p 413) concluded that, *"we can safely say that the stockholder theory is or at least should be intellectually dead*."

3.4 Islamic Principles and Stakeholder Theory

Various studies into the Islamic finance spectrum relate the foundational bases of Stakeholder Theory to the principles of Islamic economics that formed it base from Shariah objectives. Shariah itself is "*predicated on benefiting the individual and the community, and its laws are designed to protect these benefits and facilitate the improvement and perfection of human life in this world"* (Dusuki and Abdullah, 2007, p. 31*)*. However, Stakeholder Theory views the organization in a broader context involving economic agents. According to Enyinna (2013) Stakeholder Theory advocates the treatment of stakeholders with honesty, generosity and fairness. Therefore, from the Stakeholder Theory perspective, organizations are not solely profit oriented but socially responsible to the socio-economic burdens of society by bringing all stakeholders onboard (Phillips, 2003). Thus, the principles of Islamic economics form a strong basis for Stakeholder Theory (Iqbal and Mirakhor, 2004). However, Islamic principles give equal rights regarding the benefits of financial and natural resources, and establishes and organizes equal human relationships in society (Chaudhri, 2003). Hence, many studies use Stakeholder Theory to explain corporate social responsibilities and corporate governance in organizations (Al-Shamali, et al., 2013). On the other hand, Stakeholder Theory is used to measure corporate governance, the dispensation of social responsibilities and the inclusiveness of legitimate stakeholders. In other words, it takes account of how organizations discharge their role in extending social welfare and inclusion in societies. This is supported by the notion that business entities are perceived to be concerned with not only shareholder interest but the interest of various legitimate stakeholders (Freeman, 1984). Therefore, Stakeholder Theory retains social relationships between organizations and all its stakeholders (Cámara and Tuesta, 2014; Grunig and Huang, 2000).

Moreover, Islamic principles advocate that the responsibilities of individuals are not self-centered but also relate to their creator, Allah (S.W.A), with the decisive aim of promoting societal wellbeing and success (Abu-tapanjeh, 2009). Therefore, this proposition and Stakeholder Theory contrasts with the capitalist view that profit maximization is the ultimate goal in an organization. However, Islamic principles place great emphasis on contractual and property rights, along with individual interest assuming that societal wellbeing is not compromised (Bhatti and Bhatti, 2010). Furthermore, the theoretical background of Islamic economics emphasizes social and financial inclusion, where economic and financial transactions are guided by Islamic principles. Islamic principles advocate social justice where all members of society, especially the less privileged, are free from marginalization, with equal access to resources to enable them to meet their basic needs and become self-sustaining. According to Chaudhri (2003), social justice is an important Islamic doctrine that gives individuals equal rights to the benefits of financial and natural resources; it establishes and organizes good relationships and stimulates prosperity. Important elements of social justice are freedom of conscience, social interdependence and equality.

3.5 Islamic Principles as a Basis for Stakeholder Theory

The emphasis within Stakeholder Theory on the social wellbeing of society found its basis in Islamic principles. These can be traced to the primary objective of Shariah that strives to establish justice, alleviate hardship and avoid a prejudicial society through establishing corporate and societal interdependence (Dusuki and Abdullah, 2007). This can be realized by adherence to two Islamic rulings (*ahkam*), which are; worship (*ibadat*) and mutual dealings (*muamalat*). The former governs human worship of the Creator, which is guided by a principle that every act of worship must be ordained, with a line of permission to the Creator. However, the *muamalat* ruling considers the relationships among humans; the principle here is "*ibadah* permissibility" whereby anything that is not explicitly prohibited is considered permitted. This is called the "Doctrine of Universal Permissibility", where few things are forbidden. However, the idea behind the prohibition of certain things is to safeguard social justice, equality and mutual benefit to guarantee social wellbeing (Iqbal and Molyneux, 2005). Therefore, the second ruling supports the views of Stakeholder Theory, as elaborated by the assumptions of Islamic economics (*Tawheed, Rububiyyah, Khilafah* and *Taskiyah*). The assumption is based on belief in the Unity and Sovereignty of Allah (S.W.A) whereby for sustenance, human activities must adhere to the divine arrangement in the social and natural environment. Azid (2010) states that man, as Allah's vicegerent, must be considerate to humankind in his utilization of natural endowment and finance, whilst economic activities must be 'morally sanitized' to encourage growth. This substantiates the findings of Dusuki and Abdullah (2007) who relate corporate responsibilities with stakeholders who should ensure adherence to *taqwa* (Consciousness of God); this is achieved by influencing individuals' collective (corporate) activities who function as vice-regents and servants of God in every aspect of their activities. This contrasts with conventional corporate governance, which derives its values from 'secular humanist' principles (Lewis, 2005).

Thus, the ultimate goal of Islamic finance is to create an inclusive business environment where societal wellbeing is an essential part of the businesses. Dusuki and Abdullah (2007) assert that a corporation, as the backbone of a society's economic activities should be socially oriented towards realizing its corporate goals. In other words, corporations are expected to be benevolent and socially responsible to the societies in which they operate. Accordingly, the literature documents various studies relating Islamic principles (*Shariah* objectives) to corporate governance in Islamic financial institutions. For instance, Bhatti and Bhatti (2010) assert that Islamic corporate governance extends beyond shareholder and management interest to include a spiritual perspective and the social wellbeing of individuals. However, growth in corporate social responsibility reflects the increasing importance placed upon it by consumers and shareholders, and is regarded as a value that impacts also society (Dusuki and Abdullahi, 2007).

Against this backdrop, this study found a gap in the literature that relates Stakeholder Theory to financial inclusion. Thus, the study adopted the normative dimension of Stakeholder Theory to identify and interpret the corporation's moral and philosophical guidance. This aligns with various studies which address corporate social responsibilities and corporate governance in Islamic finance, (see for instance, Meutia & Devi 2017, and Iqbal & Mirakhor, 2004).

Figure 3.2 indicates the causal relation between normative aspects of Stakeholder Theory and organizational codes of conduct. The normative concept emphasizes the legitimacy and essentiality of the interest of all stakeholders in a corporation. However, the definition of Stakeholder Theory refers to stakeholders as a group that includes shareholders, customers, employees, suppliers and society; all of these are integral parts of the operation and crucial to the existence of the corporation (Kitson and Campbell, 1996). The advocates of Stakeholder Theory suggest exclusive compliance to the stakeholders' views as the fundamental means to instigate ethics and morals in a corporation (Maignan and Ferrell, 2004; Dawkins and Lewis, 2003; Greenwood, 2001). This stimulates social justice, redistribution, enhanced corporate social responsibility and corporate governance. Accordingly, as Figure 3.2 depicts, the normative branch of stakeholder theory introduces ethics to the corporation in the form of values and social justice. Socially responsible corporations help to create redistribution channels, generate income and alleviate poverty in a given society, thereby enhancing financial inclusion.

This is consistent with the *Shariah* objective that advocates social justice, redistribution and equality in society Mohieldin *et al.* (2012). Moreover, Stakeholder Theory holds the view that business organizations are not solely profit oriented but socially responsible to the socio-economic burdens of society by bringing together all stakeholders (Phillips, 2003). Corporations, such as financial institutions, are considered to have significant role in the economic activities of a society. Thus, in return they are expected to play a positive role in influencing the social wellbeing of a society (Dusuki and Abdullah, 2007).

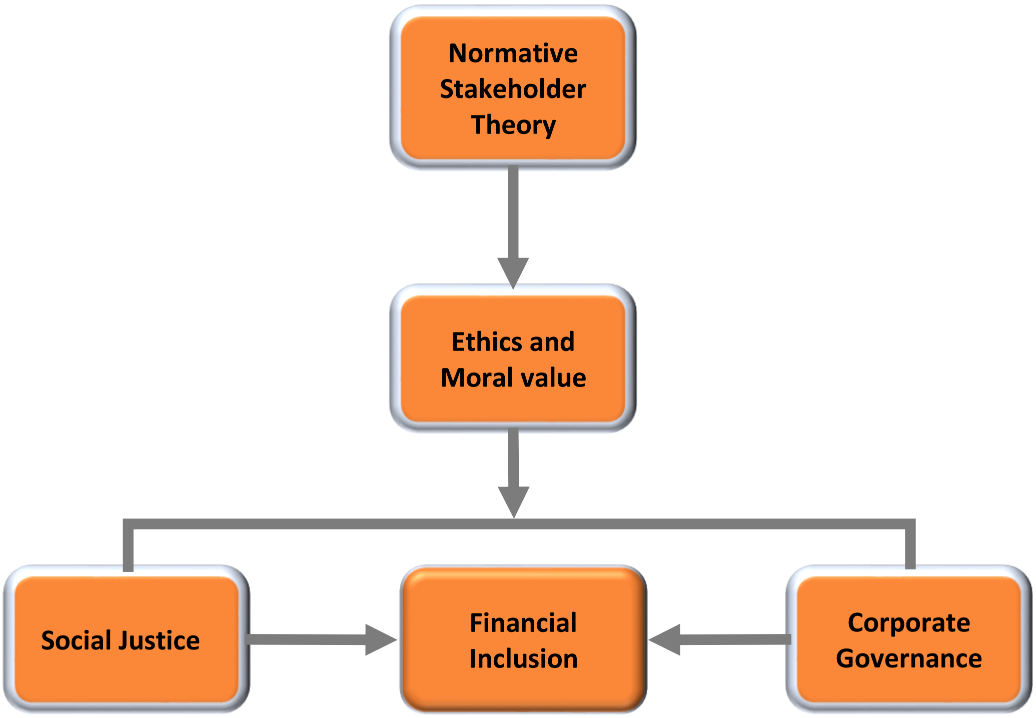
3.6 Normative Stakeholder Theory

Normative Stakeholder Theory is an instrument to explain the philosophical basis and moral values of an organization (Donaldson and Preston, 1995). Therefore, the normative concept of Stakeholder Theory emphasizes that managers are responsible for managing an organization in order to improve financial performance and consider the interests of all legitimate stakeholders. Normative Theory holds that corporations are not instruments for promoting only stockholders' interest, but rather a mechanism for coordinating stakeholder benefit. It therefore considers that managers have a multi-fiduciary relationship with stockholders and all other stakeholders (Hasnas, 1998). Hence, managers are held responsible for the interests of all stakeholders without necessarily prioritizing stockholders. Nevertheless, Goodpaster (1991) argues that it is inappropriate to compare the ethical relationship between stockholders and managers with those of managers and other stakeholders. Therefore, ethical beliefs about the fiduciary relationship between agent and principal should be differentiated from managers' and other stakeholders' relationships. On the other hand, Jensen (2007) supported the notion that business organizations should be considered a mechanism for coordinating the interest of stockholders and for considering the rule of law to coordinate social responsibility. Thus, Jensen proposed "pragmatic consideration", which implies that business organizations should concentrate on profit maximization, assuming that all due taxes are paid, whilst governments should be assume social responsibility by deploying the revenue generated from taxes.

However, this study supports Freeman (1984) who claims, "*the interests of all stakeholders are of intrinsic value. That is, each group of stakeholder merits consideration for their own sake and not merely because of its ability to further the interests of some other group, such as shareowners."* This could be perceived as a clear proposition with unquestionable justification; however, Donaldson and Preston (1995) argue that such a proposition offers no basis to defend against this notion. Accordingly, this study argues that the normative aspect of Stakeholder Theory is based on the axiomatic principles of Islamic finance, and informed by the Shariah principles, which emphasizes social justice, benevolence and inclusion in society. Specifically, for the Tawhid, property rights and contractual agreements have been emphasized. For instance, the concept of *Tawheed* stated that, to get the same *falah* (benefits) in the hereafter, individuals are expected to establish mutual social interdependence by helping the economic agents through beneficence (Asutay, 2013). This implies that with the assumption of *Taqwa* (Consciousness of God), organizations as groups of people accept their responsibilities for service, and in all circumstances accept their role as vicegerents of God. All resources and individuals are believed to be owned by the Almighty (God), and therefore should be spent or conducted in a manner that is beneficial to society (Dusuki and Abdullah, 2007). A morally guided economic and financial activity aims to attain purified and inclusive growth that involves all stakeholders in an economy. Similarly, the normative concept provides guidelines toward a morally acceptable path to attain corporate goals. For instance, the normative aspect guides toward best practice and helps to avoid wrongdoing in a corporation (Flak and Rose, 2005).

Accordingly, Figure 3.2 depicts how the Normative Stakeholder concept instigates ethics and moral values in organizations, which leads to social justice and corporate governance. This, however, aligns with Islamic corporate governance (ICG) which emphasizes that the ultimate aim of a corporation should be *maqasid Shariah* (Islamic objectives) and it should disregard the concept of shareholder centered self-interest (Bhatti and Bhatti, 2010). Therefore, the *Shariah* objective is an instrument to promote and deepen societal benefits, social justice and corporate governance in a corporation.

Figure 3.2: Normative Stakeholder Theory



3.7 Demand Side Perspective

This section reviews literature on the Theory of Planned Behaviour (TPB) and the Theory of Reasoned Action (TRA) in order to form a basis for the adoption of Theory of Planned Behaviour (TPB) as a theoretical framework to investigate the influence of individual perceptions on the use of Islamic finance products in Nigeria.

The Theory of Planned Behavior (TPB) was formulated by Ajzen (1991) as an integration of the Theory of Reasoned Action (TRA). TRA was first established by Fishbein and Ajzen (1975) to explain how an individual's intention towards a specific behavior is influenced by certain factors. TRA assumes that human attitudes and subjective norms are two factors that influence the human intention to act in a specific manner. Human attitudes toward involvement in a specific behavior might be positive or negative. Therefore, the intention to act on a behavior largely depends on the outcome of the attitude and the environmental and social norms (Fishbein and Ajzen, 1975). In other words, the behavioral intention of the individual is largely determined by the perceived outcome (attitude) of the behavior or social norm (Truong, 2009). However, TRA accounts for certain limitations. For instance, TRA accepts that subjective norms influence an individual's behavioral intention regardless of measurements of the resource concerning engagement in such behavior. In other words, it does not account for behavioral control (Venkatesh and Davis, 2000). The Theory of Reasoned Action (TRA) concentrates exclusively on explaining volitional behaviors (Hurst, 2013). Theorists disown the concept of broad behavioral disposition based on the inadequate empirical relationship between general attributes and personal behavior in a specific situation (Mischel, 1968). Another aspect of TRA, as suggested by Trafimow (2009), is that TRA cannot be falsified.

On the other hand, the Theory of Planned Behavior (TPB) holds that intentions are the central factors that influence the individual's engagement in a behavior. However, the position of the Theory of Reasoned Action confirms that motivational factors, such as the extent of the individual's willingness to perform such behavior and the effort made, is only determined by behavioral intention in volitional behavior (Ajzen, 1991). Hence, the Theory of Planned Behavior (TPB) emphasizes that predicting human intention toward a specific behavior in a particular situation requires an understanding of the individual's attitude, subjective norms and behavioral control, especially in the event of non-volitional behaviors. The perceived behavioral control suggested by TPB tends to explain the individual's perception of his capability to perform the behavior, such as the required resources to engage in the behavior (Al-Swidi *et al.*, 2014).

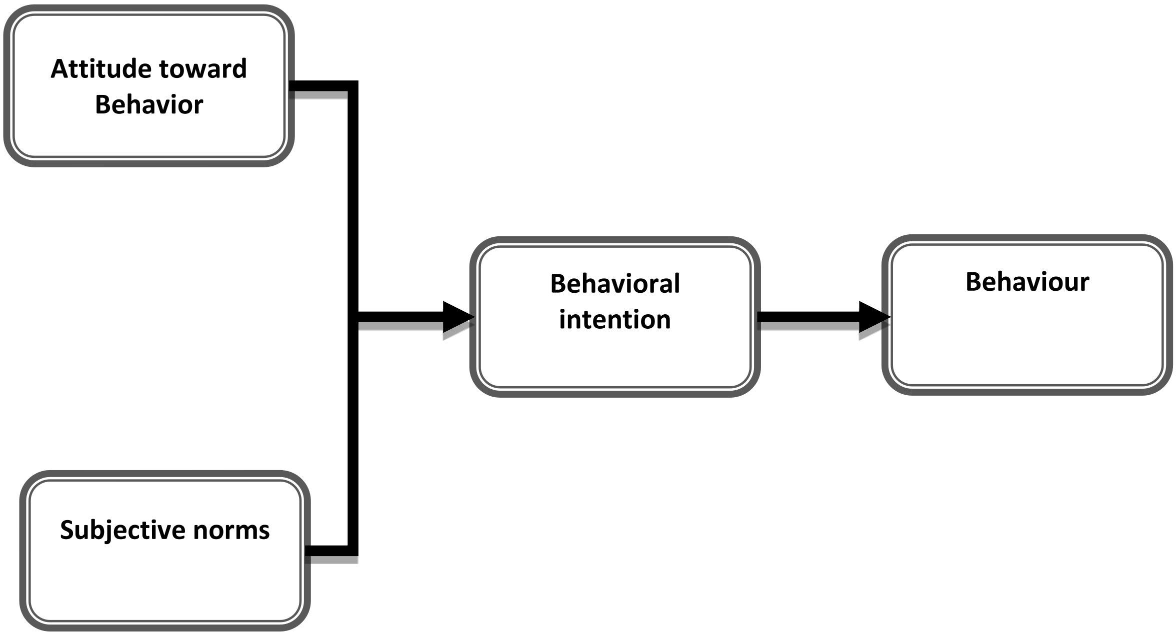
Accordingly, the literature documents various studies that adopt the Theory of Planned Behavior (TPB) in different fields of study in order to explain human intentions to perform a given behavior (Taylor and Todd, 1995; Truong, 2009; Al-Swidi *et al.*, 2014; Ajzen, 2015; Yakasai and Jusoh, 2015). Similarly, researchers of Islamic finance use the Theory of Planned Behaviour (TPB) to predict consumer behavior in accepting and using Islamic Finance Products (IFP's). For instance, Johan *et al.* (2017) studied customers' intention to accept non-interest credit cards, whilst Jaffar and Musa, (2016) examined non-users' adoption of Islamic Finance Products (IFP's) by using customer intention and attitude to predict customers' behaviors. Moreover, Amin *et al.* (2011) examine the individual's intention to use Islamic finance products by examining the determinants of behavioral intention and attitude.

3.7.1 Theory of Reasoned Action (TRA)

The Theory of Reasoned Action (TRA) was developed to explain the influence of attitude and subjective norms on human intentions to perform a certain behavior (Fishbein and Ajzen, 1975). TRA suggests that individual behavioral attitudes and subjective norms are the core determinants of individual's intentions to perform a given behavior. These determinants influence one's intention to engage in a particular behavior (Moore and Benbasat, 1996). TRA proposes an empirical and conceptual framework to evaluate the nexus between an individual's attitude, beliefs, intentions and behaviors. The model depicts that two determinants - normative and behavioral - and subjective norms play an important role in predicting intentions to perform a behavior; they represent the individual's perceived outcome on performing the behavior and the outlook of others toward the behavior (Fishbein and Ajzen, 1975). For instance, the attitude toward a particular behavior could be positive or negative; if an individual's perception about the behavior under consideration is positive, it hastens the intention to perform the behavior, whereas if it is negative, then it deters the intention. Another important component of behavior is the perception of the behavior under consideration (Truong, 2009). However, attitude and subjective norms may contradict each other. For instance, whilst the individual's attitude towards a given behavior may interpret the possible outcome of this behavior as favorable, the perception of other people may suggest the opposite (Rutter and Bunce, 1989). Thus, the individual personal attitude toward a particular behavior refers to the perceived outcome of the prospective behavior under consideration. Chang (1998) posits that an individual's attitude is a personal belief about the anticipated outcome of performing a given behavior. However, attitude itself is determined by a belief about the possible implications of performing the behavior and an assessment of the prospective consequences (Trafimow, 2009). Therefore, behavioral attitudes have a significant influence on consumer behavior to use a particular product, depending on the anticipated outcome of doing so (Simbolon, 2015).

A subjective norm is another important determining factor of behavioral intention. According to the Theory of Planned Behavior (TRA), subjective norms refer to an individual's perception of how people react to a response to the behavior under consideration. A subjective norm is defined as "*the person's perception that most people who are important to him or her think s/he should or should not perform the behavior in question*" (Fishbein and Ajzen, 1975 p 305).

Figure 3.3: The Theory of Reason Action (TRA)



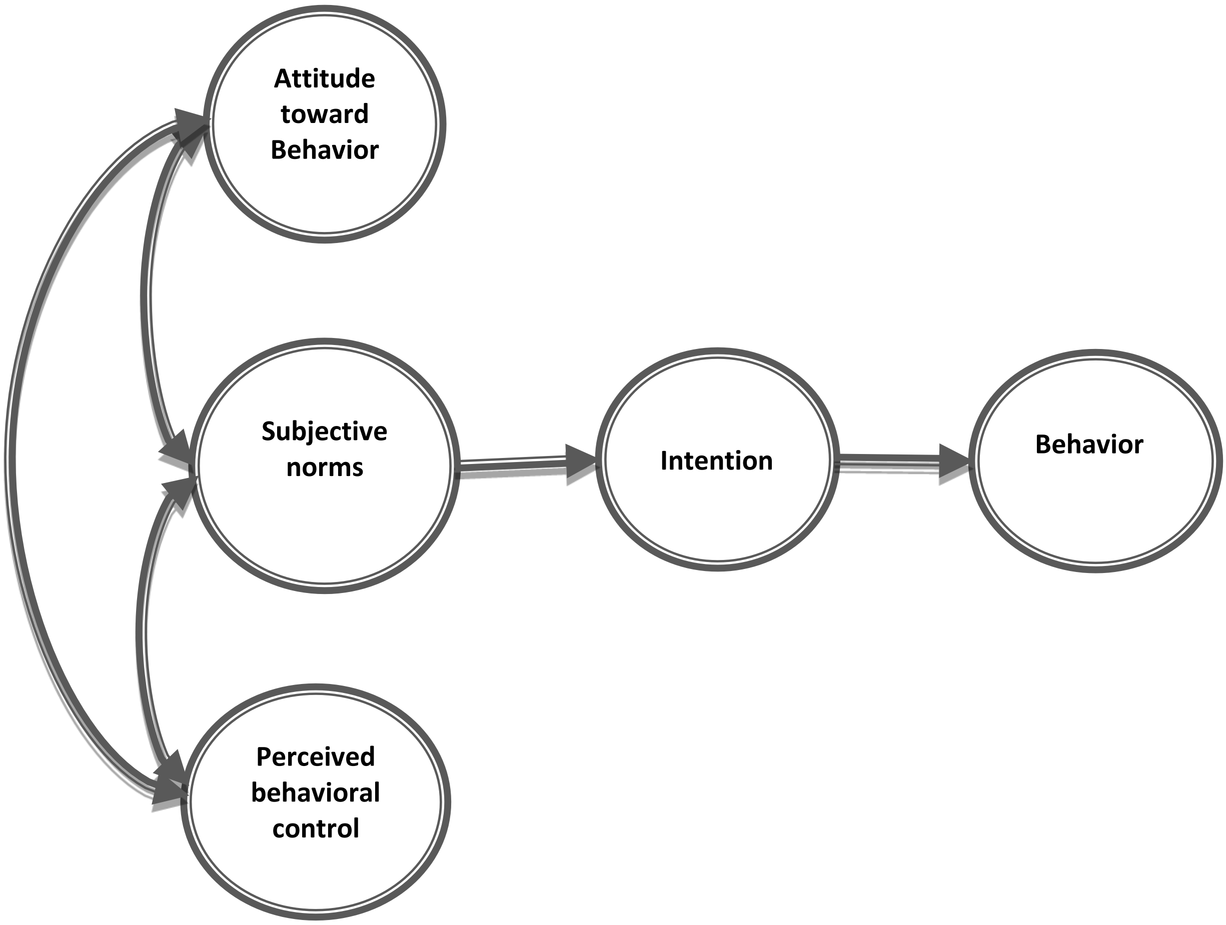
Source: (Fishbein and Ajzen, 1975)

3.7.2 Theory of Planned Behavior (TPB)

The Theory of Planned Behavior (TPB) was formulated by Ajzen, (1991) as an extension to the Theory of Reasoned Action (TRA); it was developed to explain and predict an individual's behavior in a given situation. The evolution of the Theory of Planned Behavior, which aimed to consider non-volitional behaviors, was ignored by the Theory of Reason Action (Madden *et al.,* 1992). In relating general dispositions to particular situations, Ajzen (1991) argues that using a broad attitude to predict behavior in specific conditions could produce insignificant results. Similarly, many researchers disregard general disposition to explain particular behaviors. For instance, Mischel, (1968) claimed that there is an insignificant relationship between general disposition and specific situational behavior. Therefore, a general attitude is unsuitable to predict behaviors under specific conditions or situation (Wicker, 1969). Thus, explaining the variability of behavior in different situations and predicting given behaviors in a particular situation are not accommodated by the aggregation principle, as stated above (Ajzen, 1991).

Therefore, the Theory of Planned Behavior (TPB) introduces human belief regarding the resources required in performing a particular behavior. This is considered a behavioral control, and considers a individual's belief in the control of the requisite resources to perform a given behavior (Madden *et al.*, 1992). These non-motivational factors include opportunities, monetary resources, skills, time and cooperation, which are key in acquiring control over a behavior (Ajzen, 1991). Accordingly, TPB depicts that an individual's performance of a specific behavior is determined by their intention, and this intention is, in turn, determined by attitude, subjective norms and behavioral control about the given behavior (Azzah Al-Makari, 2015). Thus, an individual's action and behavior toward something is primarily determined by their intention toward the action, and this intention is consequently influenced by behavioral attitude, perceptive norms and behavioral control. Figure 3.4 shows a graphical presentation of the Theory of Planned Behavior (TPB).

Figure 3.4: The Theory of Planned Behavior (TPB)

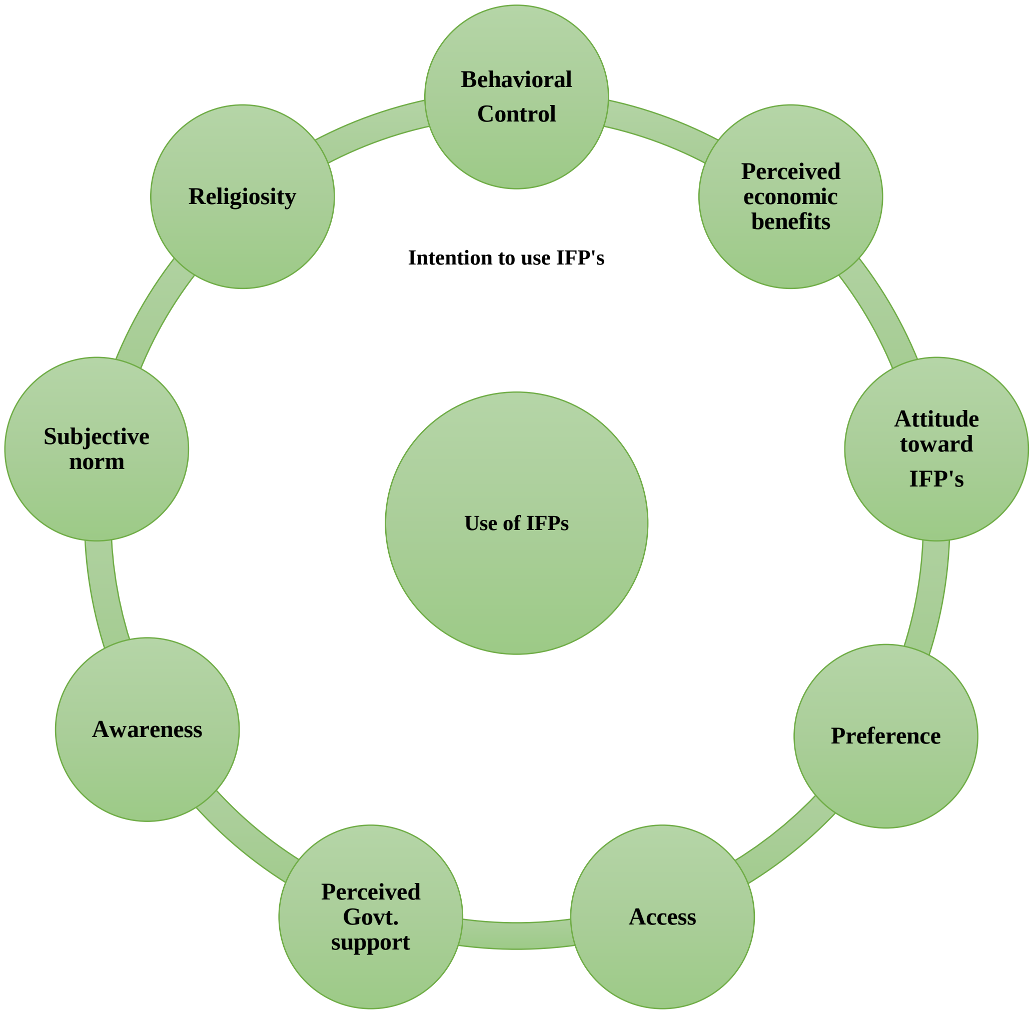


Source: (Ajzen, 1991).

3.7.3 Conceptual Model of the Study

Figure 3.5 presents the theoretical model adopted in this study. In line with Zauro (2017), this study formulated a model by adding the following to the initial Theory of Planned Behavior's four variables (attitude, subjective norms, behavioral control and intention): religiosity, perceived economic benefits, perceived government support, access, awareness and preference. As the diagram depicts, the variables influence an individual's intention and thus, their use of Islamic finance products. Figure 3.5 depicts variables that can influence individual behavior to use Islamic finance products.

Figure 3.5: Model of the Study



3.7.3.1 Attitude

Attitude is a process of evaluating the prospective behavior that an individual is about to perform, which usually consists of two possible outcomes - favorable or unfavorable (Ajzen, 1991). Therefore, the individual's beliefs about the outcome of the behavior drives the attitude that leads to the behavior (Bang *et al.*, 2000). These outcomes might be positive or negative depending on the belief that the individual holds. Ajzen and Fishbein (1980) assert that attitude is the extent to which an individual approves or disapproves of an action or behavior.

3.7.3.2 Subjective Norms

This is also called social pressure; often it is referred to as the perception of the related associates of the individual performing the behavior under consideration. Dominic *et al*. (1998) posited that subjective norms imply the attitude of the close relations of the individual in relation to their potential behavior; thus, the outcome of their influence is the intention of the individual to perform the behavior.

3.7.3.3 Perceived Behavioral Control

Perceived behavioral control is the perception of self-efficacy in performing a behavior. Beliefs about the control of the behavior stimulate one's perception about the difficulty or ease of performing a given behavior (Ajzen, 2002). This control also determines the resources, opportunity, time and skills available to the individual. However, in the case where the individual does not have control over a behavior, the perceived behavioral control is believed to have direct links with behavior, in addition to a capability to influence intention. Perceived behavioral control was introduced by Ajzen (1991) in his TPB, which was modified for the TRA. Azjen argued that the perceived control of behavior is a vital element that influences an individual's intention to perform a behavior. Thus, this study assumes that the perceptions of the adult population about their control over the use of IFPs are important determinants in measuring the usage of IFPs in Nigeria.

3.7.3.4 Intention

Intention to perform certain behaviors is the individual's motivation to perform a given behavior (Fishbein and Ajzen, 1975). However, the intention is determined by belief, control and social pressure on the individual, which either instigates or deteriorates the behavior under consideration (Ajzen, 1991). Therefore, it is useful for this study to investigate the intention of the adult group towards the use of IFPs in Nigeria.

3.7.3.5 Religiosity

Religion is a social institution, universally accepted and influential in human life; it influences human behaviors, beliefs, attitudes and values (Alam *et al.*, 2012). However, an individual level of compliance (religiosity) determines this influence. Thus, the influence of religion on individual behavior is determined by the level of an individual's compliance to religion (Lada *et al*., 2009). The level of religiosity is an important factor in an individual's financial behavior (Demirguc-Kunt et al., 2013).

3.7.3.6 Awareness

The literature on financial inclusion emphasizes the importance of financial literacy when accessing finance. A lack of financial awareness significantly influences voluntary exclusion among individuals (Demirguc-Kunt and Klapper, 2013). Therefore, financial literacy is a significant component of financial inclusion. This study examines the financial awareness of IFPs among Muslims in Nigeria.

3.7.3.7 Perceived economic benefits

Perceived benefits denote an individual's expected favorable outcome on performing certain behaviors. Perceived benefits arise as a result of an individual's positive beliefs on the outcome of a behavior (Chandon et al., 2000). However, it is associated with the perception of potential satisfaction and benefits, which will drive the performance of a given action or the use of a certain product (Liu *et al.*, 2012). Accordingly, this study aims to investigate the individual perception of the potential benefits associated with using IFPs in Nigeria.

3.7.3.8 Access

The accessibility of Islamic finance products refer to the availability of products and services at an affordable cost and at appropriate times, and the ability to use the services and products offered by the financial service sector (Beck et al., 2007). In other words, access to financial services denotes the extent of the outreach (physical reach) of the services provided by Islamic financial institutions.

3.8 Hypothesis Development

Literature suggested a positive association between Islamic finance and financial inclusion. However, evidence revealed that individual demographic attributes, such as gender, age, educational attainment and income, are the major determinants of financial inclusion and the use of Islamic financial products (Zins & Weill, 2016; Tuesta *et al*., 2015; Akudugu, 2013). Moreover, individual awareness, access and perceptions toward Islamic finance products influence their usage, as demonstrated by the conceptual model of the study in Figure 3.5. Hence, this study investigates the impact of *Shariah* compliance and the use of Islamic financial products in promoting financial inclusion. This has been achieved by investigating the major determinants of financial inclusion, the determinants for using Islamic finance products, the factors influencing individual behaviour to use Islamic financial products (IFPs), and the impact of prevailing IFPs on promoting financial inclusion in Nigeria.

Accordingly, the developed hypothesis is presented in the following Sections:

3.8.1 Determinants of Financial Inclusion in Nigeria

Literature indicated that financial inclusion such as (formal account, saving, credit and use of Islamic financial products) are determine by certain individual attributes, such as gender, age, income and education level. Therefore, these demographic attributes tend to influence individual access to formal financial services. Allen et al. (2016) finds that propensity to be financially included is higher for individual with higher educational level, income, male and older individuals. This substantiate Zins and Weill (2016) who refer to the three parameters of financial inclusion, (formal account, formal savings and formal credit). Having access to the first indicator - formal account - is attributed to individual attributes such as age, education level, and level of income. These findings aligned Demirguc-Kunt et al. (2013) whose finding suggested a strong relationship between access to a formal account and income. Sarma and Pais (2011) found that income, income differential and literacy are common determinants of financial inclusion in the majority of countries across the world. Silva et al. (2016), in their study to establish the determinants of financial inclusion in Sri Lanka, identified individuals' age, literacy level, gender and income level as possible determinants of financial inclusion. Abel *et al*. (2018) reviewed the determinants of financial inclusion and found that income, education, gender and age played a significant role on individual access to financial services. This also aligned with the research by Soumare et al. (2016) who analyses the determinant of financial inclusion in west and central Africa using age, income, gender and education. Similarly, Zins & Weill (2016) used the same indicators to examine the determinants of financial inclusion in Africa. Similarly, use of Islamic financial products as an indicator of financial inclusion is determine by individual attributes such as gender, age, income and education (Jabeen *et Al*., 2017). Demirguc-Kunt, et al. (2013) examined the impact of being a Muslim on holding a formal account, formal saving, formal credit, and barriers to financial inclusion. They find that Muslims resort significantly less to formal account ownership and formal saving than non-Muslims. However, Muslims would not be less likely to borrow, either formally or informally, than non-Muslims. The typical categories excluded from formal financial systems are the poor, the less educated, women and rural adults. However, Fungacova and Weill (2015) established that poorer people cited lack of money and a family member holding an account for common use as reasons for being financially excluded. The study also notes that women are less likely to be financially included due to improper documentation and/or due to another family member holding a common account which they use. Further again, older people show concern over lack of money, distance from a banking service point, and other religious reasons. Therefore, as part of the novelty of this study and in line with extant literature which suggested financial inclusion as indicator of access to financial services, this study considers the use of Islamic finance products as an indicator of financial inclusion in order to examine the determinants of financial inclusion (age, income, education and gender).

Therefore, the development of hypotheses H_{1a} and H_{1b}, aligns with evidence from the literature, which indicated that individual characteristics such as educational attainment, gender, income and age are the major determinants of financial inclusion. As indicated, by various studies that examined the changing role of these individual attributes in determining financial inclusion. Hence, this study focuses on the determinants of financial inclusion taking in into consideration formal account, saving, credit and use of Islamic financial products in Nigeria. Accordingly, the following hypothesis are developed:

H$_{1a}$ Access to and the use of financial services in Nigeria are determined by the four individual demographic attributes: gender, age, income and educational level.

H$_{1b}$ The use of Islamic finance products is determined by four individual attributes: gender, age, income and educational level.

3.8.2 Influence of Individual perceptions, awareness and access on the use of Islamic financial Products in Nigeria

Theoretical postulation and literature suggested significant influence of individual perceptions on engaging in performing certain action such as use of Islamic financial products (IFPs) among individuals. For instance, the assumption of the theory of reason action centered on human attitudes and subjective norms which are conceived as the two factors that influence the human intention to act in a particular action such as use of Islamic financial products. individual attitudes toward participation in a particular behavior might be positive or negative. Therefore, the intention to act on a behavior largely depends on the outcome of the attitude and the environmental and social norms (Fishbein and Ajzen, 1975). In other words, the behavioral intention of the individual is largely determined by the perceived outcome (attitude) of the behavior or social norm (Truong, 2009). However, TRA accounts for certain limitations. For instance, theory of reason action accepts that subjective norms influence an individual's behavioral intention regardless of measurements of the resource concerning engagement in such behavior. In other words, it does not account for behavioral control (Venkatesh and Davis, 2000). The Theory of Reasoned Action concentrates exclusively on explaining volitional behaviors (Hurst, 2013). Theorists disown the concept of broad behavioral disposition based on the inadequate empirical relationship between general attributes and personal behavior in a specific situation (Mischel, 1968). Another aspect of TRA, as suggested by Trafimow (2009), is that TRA cannot be falsified. However, in an attempt to recede from the limitation of the theory of reason action, the Theory of Planned Behavior (TPB) was formulated and holds that intentions are the central factors that influence the individual's engagement in a behavior. However, the position of the Theory of Reasoned Action confirms that motivational factors, such as the extent of the individual's willingness to perform such behavior and the effort made, is only determined by behavioral intention in volitional behavior (Ajzen, 1991). Hence, the Theory of Planned

Behavior (TPB) emphasizes that predicting human intention toward a specific behavior in a particular situation requires an understanding of the individual's attitude, subjective norms and behavioral control, especially in the event of non-volitional behaviors. The perceived behavioral control suggested by TPB tends to explain the individual's perception of his capability to perform the behavior, such as the required resources to engage in the behavior (Al-Swidi *et al.*, 2014).

On the other hand, growing literature on financial inclusion articulated financial literacy (awareness) as a fundamental element for attaining the financial inclusion among individuals. Ramakrishnan (2012) describes financial literacy as the primary stride towards attaining financial inclusion. This is because financial literacy enables the effective use of scarce resources, provides ideas about the importance of investments, savings and their related outcomes, and sources of borrowings. Therefore, the proposition that made financial literacy as first point towards attaining financial inclusion is apparent as it informs individuals about financial products and services, (such as savings, investment, risk management) and their associated significance. Facilitates informed decision on resources management, future planning. However, evidence suggested that 20% of the 2.5 billion individuals reportedly excluded from financial institutions worldwide cited physical access to financial services as being the major barrier for their financial inclusion (Demirguc-Kunt and Klapper, 2012). Thus, access to financial services is considered as major determinant of financial inclusion (Zinz and Weill, 20216). Therefore, accessibility of Islamic finance products refer to the availability of products and services at an affordable cost and at appropriate times, and the ability to use the services and products offered by the financial service sector (Beck et al., 2007).

Accordingly, the literature documents various studies that adopt the Theory of Planned Behavior (TPB) in different fields of study in order to explain human intentions to perform a given behavior (Taylor and Todd, 1995; Truong, 2009; Al-Swidi *et al.*, 2014; Ajzen, 2015; Yakasai and Jusoh, 2015). Similarly, researchers of Islamic finance use the Theory of Planned Behaviour (TPB) to predict consumer behavior in accepting and using Islamic Finance Products (IFP's). For instance, Johan *et al.* (2017) studied customers' intention to accept non-interest credit cards, whilst Jaffar and Musa, (2016) examined non-users' adoption of Islamic Finance Products (IFP's) by using customer intention and attitude to predict customers' behaviors. Moreover, Amin *et al.* (2011) examine the individual's intention to use Islamic finance products by examining the determinants of behavioral intention and attitude.

Hence, in line with the Theory of Planned Behaviour (Ajzen, 1991) and the related literature, this study hypothesised that individual perceptions, access and awareness toward Islamic finance products influence the use of these products as stated below. Moreover, as an extension to the Theory of Planned Behavior, this study developed a theoretical model for testing, as discussed in preceding sections of this chapter.

H_2 The use of Islamic finance products is influenced by the perceptions, access and awareness of the individual toward such products.

3.8.3 Impact of Islamic Finance in Enhancing Financial Inclusion in Nigeria

These hypotheses are based on the financial inclusion literature that provided evidence on the viability of Islamic finance in promoting financial inclusion, especially in Muslims dominated economies such as Nigeria. Demirguc-Kunt et al. (2013) posit that Islamic banking and finance play a significant role in enhancing financial inclusion, especially for self-exclusion motivated by religion, which is more common among Muslim adults in emerging economies such as Nigeria. Islamic finance stimulates financial inclusion through its various modes of financing, as opposed to the traditional interest based financial system. For instance, Imam and Kpodar (2016) argue that Islamic finance stimulates lending through risk-sharing instruments as opposed to the conventional banking system where collateral qualifies potential borrowers for access to credit. Islamic finance may therefore loosen constraints on credit. Consequently, it stimulates investment, increases savings (the accumulation of capital) and thus promotes economic development. However, the literature confirms that more adult Muslims, especially in Muslim countries, are unbanked, which thus reduces savings (Demirguc-Kunt *et al.*, 2013). Accordingly, the introduction of Islamic finance accelerates savings by reducing financial exclusion, and increasing savings and financial innovation (new financial products) that suits the demand of investors, depositors and borrowers, and thus, increases participation in formal financial systems Gheeraert (2014) and stimulates competition (Beck, et al., 2013). Therefore, Islamic finance offers a viable way of promoting financial inclusion (Mohieldin, 2012).

Islamic finance emphasizes risk sharing contracts that neutralize both parties - the lender and the borrower - in terms of gain and loss. In a classic risk sharing contract, the investor (financier) and the entrepreneur or debtor must be susceptible to risk and or profit if any (Khan, 2010). This prohibits interest, uncertainty and the financing of harmful activities, as underlined in the Islamic principles (Kammer *et al.*, 2015). Thus, emphasizes risk-sharing contracts that promotes financial inclusion through *Shariah* compliant financial products, such as microfinancing and micro insurance, and are therefore affordable to micro enterprises and less privileged individuals in a society (Mohieldin *et al.*, 2012). Therefore, the philosophical strands of Islamic finance are based on *Sharia* Law (Imam and Kpodar, 2016). Islamic finance advocates risk-sharing transactions where profit and loss are bone by both parties with the exception of prohibited business transactions involving alcohol, weapons, pornography and pork. Accordingly, it is the obligation of the Islamic financial system to operate in the context of a risk sharing finance mode (Gheeraert, 2014).

This proposition has been driven base on the premise that the ultimate goal of Islamic finance is to create an inclusive business environment where societal wellbeing is an essential part of the businesses. Dusuki and Abdullah (2007) assert that a corporation, as the backbone of a society's economic activities should be socially oriented towards realizing its corporate goals. In other words, corporations are expected to be benevolent and socially responsible to the societies in which they operate. Accordingly, the literature documents various studies relating Islamic principles (*Shariah* objectives) to corporate governance in Islamic financial institutions. For instance, Bhatti and Bhatti (2010) assert that Islamic corporate governance extends beyond shareholder and management interest to include a spiritual perspective and the social wellbeing of individuals. However, growth in corporate social responsibility reflects the increasing importance placed upon it by consumers and shareholders, and is regarded as a value that impacts also society (Dusuki and Abdullahi, 2007).

With the vast Muslim population in Nigeria, Islamic finance has a significant role to play in promoting financial inclusion in the country (Babatunde, 2014). The following measurable hypotheses are derived from the related literature and are associated with objectives two, three and four of this study.

H$_3$ The use of Islamic financial products has a positive relationship with financial inclusion.

3.9 Conclusion

The theoretical framework of this study has been presented in this chapter. Moreover, the Theories of Reasoned Action and Planned Behavior, alongside Shareholder Theory and Stakeholder Theory have been reviewed. Consequently, the Theory of Planned Behavior and Stakeholder Theory have been adopted for the demand and supply side of the study. Moreover, the chapter explains the model developed by this study, which will be used to examine the various perceptions towards the use of IFPs in Nigeria. This chapter also explains the reasons behind the adoption of these two theories. In addition, the development of the hypotheses is presented, and each hypothesis is explained from the perspectives of literature and theory, whilst their relationships with this study are also discussed. Hence, this chapter provided the theoretical background that underpins the study and the hypotheses derived from the literature.

Chapter Four

A Literature on Financial Inclusion and Its Determinants

Chapter 4

Literature Survey on Financial Inclusion and Its Determinants

4.1 Introduction

This chapter presents the concepts of financial inclusion. Barriers to financial inclusion, the economic implications of financial inclusion and exclusion are also discussed. The chapter further reviews the literature on the economic implications of financial inclusion, and financial sector development and economic development. The determinants of financial inclusion and its relationship with socio-economic status of individuals are discussed. Various measurements are presented in this chapter. Further, the indicators of financial inclusion, and policy responses to achieve inclusive financial systems are discussed.

4.2 The concept of financial inclusion

Financial inclusion or access to basic financial services by individuals and small firms is widely discussed among policy makers, financial stakeholders and scholars. This often relates to the viability of financial inclusion in attaining inclusive development in the society. Beck and Demirguc-Kunt (2009), point to the critical role of formal financial sectors in stimulating savings, enhancing access to credit, providing risk management tools and payment services. These aspects of economic infrastructure assist the efficient allocation of resources and facilitate the transfer of goods and services which will encourage investment and the distribution of wealth in the economy, helping to improve income equality, poverty reduction and employment generation. Nevertheless, about half of the global population are financially excluded (Demirguc-Kunt and Klapper, 2012).

Consequently, many attempts have been made to define the concept financial inclusion. For instance, the World Bank Group, (2014) defined financial inclusion as the proportion of active economic members using financial services. This is often accompanied by significant economic benefits, especially to the low-income segment ;the IMF (2014) views financial inclusion as a process of introducing the unbanked into formal financial services, especially, women and low-income groups. Financial inclusion is a process towards ensuring affordable access to financial services and sufficient credit at an appropriate time to low income segments in society (Rangarajan committee, 2008). Accordingly, studies such as (Beck 2016, Sahay et al., 2015, Amidžić *et al.*, 2014, Sarma 2012) defined the concept as the accessibility of suitable and affordable formal financial services that meet the demand of individuals and enterprises. On the other hand, Cámara and Tuesta, (2014) define financial inclusion as a process that undermines involuntary financial exclusion and stimulates access and the use of formal financial services by the society. Similarly, Allen *et al.* (2012) defines the term as a situation where economic agents have made sufficient utilization of formal financial services.

As the definition suggests , financial inclusion drives substantial economic benefits to individuals and enterprises, especially the low income group. Ardic and Mylenko (2011) argues that basic access to financial services enhances economic welfare of low-income group. For instance, Sarma and Pais, (2008) and (Ben Naceur *et al.*, 2015) claim that financial inclusion enables safe savings, enhances investment and facilitate efficient allocation of resources. Inclusiveness in financial services usually associated with increased savings, investment and consumption. Consequently, empower women and youth through income and employment generation in the society (Bruhn & Love 2014). Similarly, Beg and Mullick (2016) and Zins and Weill, (2016) posit that attaining inclusive economic growth is a process where financial development is achieved along with inclusiveness of financial services, which improves income, employment generation, health and educational investment, entrepreneurship and savings and facilitates easy payments of proceeds and projects funding, especially among low income groups. Therefore, without an inclusive financial system, these economic benefits can be underutilized by small enterprise and less privileged individuals (Demirgüç-Kunt *et al*., 2008). However, limited access to formal financial services dispossesses low-income segments of these benefits. Fungáčová and Weill (2016) assert that low credit accessibility by the economic agents is associated with financial susceptibility of individuals.

However, there are several economic and social factors negating the actualization of these economic implications of financial inclusion by hindering economic agents from accessing conventional financial services. These barriers are aspects of the capitalist system, which has largely abandoned social benefits for profits. Hunter, (1993), asserts that less privileged groups, considered as afflictions by the financial institutions, are being isolated from access to formal financial services, for instance, the tendency to dissuade investments and the provision of credit for the less privileged (Fuller, 1998). This is a strong indication of failure to encourage financial inclusion by conventional financial systems. Leyshon and Thrift, (1993) state that, in developed countries, expansion in the financial service industries is associated with the components of financial exclusion.

4.3 Financial Inclusion: A Literature Survey

Financial inclusion is generating discussion among scholars, organisations, policymakers and governments on a global scale, as indicated by the growing literature on the subject. Financial inclusion is perceived as access to formal financial services by individuals without discrimination in order to reduce poverty and improve living standard (Kablana and Chhikara 2013); Allen *et al*. (2016); Al-Swidi *et al.* (2014); Kodan & Chhikara (2013); Demirgüç-kunt *et al*. (2011); Ellis *et al*. (2010), (Evans 2016). Financial inclusion enhance investment (Burgess and Pande 2003), empowers women (Ashraf *et al*., 2010), increases savings (Ashraf *et al*. (2010), and creates a vibrant financial system that can supports economic growth and accompanies industrialization (Beck (2008); (Evans 2016); Evans and Adeoye (2016), (Burgess and Pande, 2003). Major international institutions and organisations such as the World Bank, the International Monetary Fund (IMF), United Nations Development Programme (UNDP), European Commission (EC), Asian Development Bank (ADB), African Development Bank (AFDB), G20 and many other organisations have long been advocating for the institutionalization of financial inclusion for the obvious economic impact associated with it. Also, studies (Evans, 2016; Arya, 2015; Naceur *et al*., 2015; Adeoye, 2015; Sarka, 2015 & Beck, 2008) have reiterated the significance of financial inclusion to macroeconomic development of any nation.

Despite the efforts by multinational organizations, individuals, governments and industrial regulators in combating financial exclusion in different parts of the world, especially in Sub-Saharan Africa (SSA), there remain several millions who are involuntarily excluded and those who choose to voluntarily exclude themselves from financial services for personal reasons. For instance; Beck *et al*. (2009) conclude that those who voluntarily exclude themselves from using financial services were influenced by cultural or religious values. Similarly, FinScope (2004) reported that more than 3.5 million customers withdrew from the South African financial system for various reasons. Ellison *et al.* (2011) found that this trend is highly associated with lack of trust in the system, inappropriate product packaging, religious reason, bad credit record, service cost and difficulties in the management of their spending. European Commission (2008) also cited barriers such as inappropriate product design, product/service affordability and clients' inability to scale eligibility criteria. In the same vein, Rhine and Greene (2013) stated in a study conducted in the United States and titled *Factors That Contributes to being Unbanked*, that the family shift from financial inclusion to financial exclusion is also influenced by a decline in family income, loss of employment and health insurance coverage. The results further indicate that race and ethnicity, education, family income, marital status, housing status and location have a bearing on whether or not a family is excluded from an original position of financial inclusion.

Against this backdrop, the World Bank is promoting an ambitious project of achieving universal financial access by 2020. According to Demirgüç-Kunt *et al.* (2008), financial inclusion is geared towards providing financial access to all without discrimination. Financial inclusion entails the provision of formal financial services at affordable cost to a vast segment of deprived and low-income people (Nandru *et al*., 2015). Aduda and Kalunda (2012) provide a brief description of financial inclusion as the process of accessing different forms and channels of required financial services, at a relatively fair price, when, where and whoever requires it without any discrimination and across all social divides. Financial inclusion rapidly gained recognition as a critical factor in the socioeconomic well-being of the people (Tuesta *et al.*, 2015). And as to who is responsible for providing the required inclusive financial services, Hassan, (2015) points to the banking sector as well structured to cater for the financial needs of the people. In other words, financial inclusion can be seen as a deliberate attempt by national governments and institutions to smooth the barriers that hinder the disadvantaged from accessing formal financial services offered by formal financial institutions. These hindrances could be demographic, social, economic, cultural, religious and/or geographic. However, these determining factors vary from region to region.

The World Bank's *Global Findex Database Report (2014)* showed that more than half of the global youth population does not have a formal bank account with a formal financial institution. Household survey findings examined a total of 149 countries and more than 124,000 study participants, out of which, nearly 60% cited personal reasons including lack of bankable funds, owning of an account by a family member which other members can use, a proportion which Allen *et al.* (2012) considered as indirect users of financial services rather than categorizing them as complete non-users of financial services, and those who cited religious reasons are mostly found in Muslim (OIC member) countries. In some developing and emerging economies, financial exclusion could reach an alarming 90% of the population (Mehrotra and Yetman, 2015).

However, various global regions and societies have different reasons for financial inclusion as indicated by several findings in several different research by individuals, agencies, global bodies, and institutions around the world. Hassan (2014) reasoned that only extensive access to banking and financial systems will promote the need for financial inclusion which will further uplift peoples' living standards (Leeladhar (2005) and economic growth in general. Several factors are responsible for the financial inclusion in a given society. This is to say that both the supply side and the demand side have their various contributions to those determinants of inclusion.

4.4 Barriers to Financial Inclusion

Financial exclusion is often referred to as a product of social exclusion or visa-versa is a situation where segments of society are unable to access basic financial services . Beck and Torre (2007) argue that it is inadequate to assume that barriers caused by information asymmetry, uncertainty and the cost of transactions all entail an access 'problem 'and argue that the problem with access should rather be identified from demand and supply constraints. In this regard, voluntary and involuntary factors must be separated and treated differently. Beg and Mullick (2016) assert the distinction between use and access; individuals may have access, but perhaps for religious, educational or cultural reasons may voluntarily refuse to use the available services. On the supply side however, barriers to banking services may arises from income insufficiency or market imperfections (Park and Mercado, 2015); annual fees, minimum balances for checking accounts and documents required to open accounts, days to process loans, delivery channels for lending products, fees associated with certain transactions such as ATMs (Hannig and Jansen, 2010) are all impediments to use. Beck et al. (2008) in their study of 209 banks in 62 economies developed new indicators for barriers to banking services. Thus empirical study by Beck *et al*. (2008) revealed that countries with strict controls on bank entry and activities, minimal disclosure and media freedom as well as inadequately developed infrastructure have higher barriers. Furthermore, individuals experience high level barriers to loan services in mostly publicly owned banking sector and less barriers to savings in banking systems that are dominated by foreigners. Similarly, larger banks seem to impose lower barriers due to economies of scale when compared to smaller banks. For instance, large banks might be better at exploiting economies of scale and scope while overcoming transaction costs. On the other hand, smaller banks are close to the individuals who require smaller amounts and thus be able to serve them better (Berger *et al*., 2004). Nevertheless, the presence of state-owned banks and foreign banks have affected the extent of barriers depending on the country and its level of financial and economic development.

On the contractual and informational framework, banks aim at bridging the information asymmetry between users and depositors of funds. How well they succeed depends on the contract enforcement in the jurisdictions. Banks in countries with ineffective contract enforcement charge higher fees and required more documents to open an account (Beck *et al*., 2008). This is related in some instances to bank restrictions and regulations, which might have direct and indirect effects on the barriers that banks impose.

Yet, less privileged individuals with negative credit profiles and associated religious and cultural barriers, deter access to formal financial services for these vulnerable groups thus deterring the attainment of social justice in a society. For instance, there is a high cost associated with cash transactions, personal and liquidity risk and difficulty accessing economic benefits linked to the use of formal financial services such as credit facilities, savings, payments and insurance services (Allen *et al.*, 2016)inflating poverty, inequality, malnutrition and social instability in an economy.

Perceived causes for financial exclusion entail various reasons, from the supply side to the demand side. However, the financial exclusion menace is not solely associated with poor economies, even the top performing economies, such as the UK and US have not attained inclusive financial engagement (Sarma, 2012). Financial exclusion is a multi-dimensional phenomenon with multiple causes. The World Bank (2014) outlined four common types of financial exclusion in its 2014 Global financial report. The report suggested that voluntary financial exclusion is caused by religious and social influence and involuntary exclusion is a result of market imperfection and weak contract enforcement.

4.5 Economic implications of access to financial services

Access to formal financial services provides various opportunities to promote the economic welfare of economic agents. Demirguc-Kunt and Klapper, (2013) assert that formal financial services enable safe savings, provide credit and manage risk, which in turn stimulates investments, education, healthcare and entrepreneurship. Therefore, enhancing inclusive development can improve the social welfare of the poor. Beck (2016) emphasizes the potency of access to payments in facilitating economic transactions with limited time and cost. Moreover, evidence, suggests that access to savings facilities improves investments and productivity, thus, enhancing income, consumption and providing access to better healthcare facilities (Dupas and Robinson, 2009; Ashraf et al., 2010). On the other hand, the availability of micro-credits stimulates entrepreneurship and productive investments among low income groups (Banerjee and Sendhil, 2010; Karlan and Zinman, 2010). Conversely, financial access constraints characterized by market imperfections such as; complex documentation requirements, cost and asymmetric information inflates income inequality, poverty and unemployment, and thus, undermines growth (Beck, *et al*. 2007). On the other hand, studies indicate favorable implications of access to formal accounts at micro level. Naceur *et al.* (2015) conclude that accessibility of savings accounts accelerates investment, income and consumption. Similarly, access to affordable credit negates financial constraints especially among lower group firms and thus, improves entrepreneurship, and income equality.

The relationship between financial sector development and economic development is long established. However, evidence suggested that the economic goal of attaining income equality and poverty reduction is not feasible without inclusive access to financial services (Mohieldin *et al.,* 2012). This substantiates the views of Demirguc-Kunt et al. (2007) who state that inclusive financial systems are considered to be “pro-growth and also pro-poor”. Beck (2016) opined that financial sector development is often associated with financial innovation, such as new products, facilities and favourable policy, stimulating financial inclusion. Financial sector development accelerates productivity by dissuading idle cash and encouraging productive investment (Durusu-Ciftci et al., 2017). Therefore, financial sector development plays a significant role in enhancing financial inclusion and reducing poverty. This is because inclusive financial systems can be regarded as essential in stimulating entrepreneurship, income equality, employment generation and poverty reduction (Zulkhibri, 2016a). Financial inclusion is not only leading to more economic development, it is a tool for sustaining economic development. Mohieldin *et al.*, (2012) posit that attributes of access to financial services such as savings mobilization, credit availability and enabling the management of risk stimulates productivity and sustainable economic growth and development.

Access to financial services brings economic transactions into clusters where businesses perform at a safe, fast and minimal cost. Further, access to financial services enables individuals to save and gain access to credit (Beck, 2016) driving them out from the poverty trap.

Nevertheless, role played by each dimension of financial services in poverty reduction varies and promoting income equality differs. For instance, credit accessibility allows income from less privileged sources to unlock economic activities often generating investment and allowing expansion of micro entrepreneurs (Banerjee and Newman 1993). Also, it reduces constraint to credit among the micro-entrepreneurs. Similarly, access to financial services stimulates savings by encouraging the transfer of ‘idle’ cash to formal financial institutions, accelerating micro enterprise investment (Dupas and Robinson, 2013). In addition, access to formal financial services such as insurance, savings and credit serve as a shock absorber during unexpected financial crises when economic activities often deteriorate (Bacchetta and Gerlach, 1997; Ludvigson, 1999). Poverty is associated with lack of funds to access better living, education and investments, and thus, increase illiteracy, malnutrition and underutilization of economic potential in society. Beck (2016) asserts that provision of affordable financial services to this segment of society can play a significant role in reducing poverty. For instance, one of the major poverty alleviation tools is micro credit accessibility. However, financial inclusion reduces micro credit constraints. Though, lack of the transformative entrepreneurs and abundance of provisional entrepreneurs might hinder transformational impacts of micro credit in the economy (Emran et al., 2007). Moreover, easy access to payments also facilitates the exchange of goods and services with less cost, making business easier and stimulating income redistribution. Easy access to payments also mobilizes savings, accelerates investments, and thus, reduces poverty in society, although, it might not have a significant impact on the aggregate economy (Beck, 2016).

Evidence suggests financial inclusion eventually negates the implications of poverty in an economy by allowing individuals to save for the future. FII (2016) survey indicated that financially included individuals with daily income below the poverty line are more prepared for unforeseen financial activities than individuals with income above poverty line. Therefore, implications of poverty could be negated by an inclusive financial system.

4.6 Policy Response to Financial Inclusion (Global perspective)

The increasing level of financial exclusion among adults around the world and the perceived economic potency of inclusive financial systems have attracted the attention of Government and other financial sector stakeholders. Therefore, extensive policy response to convert exclusion and attain inclusiveness in financial system has been observed among all the relevant stakeholders. Various legislative measures and social initiatives have been ratified among Governments and financial industries (Kempson, *et al*. 2004; Arun and Kamath, 2015). For instance, the 1987 banking business act of Sweden declares the right of citizens to have deposit accounts. the inauguration of financial inclusion task force by the UK Government in 2005, the 1998 exclusion law that granted the right to have an account by all economic agents in France, and the 1997 US Community Reinvestment act which prohibits the banking sector from concentrating only on the rich segment of the society were measures mandating banks to provide affordable credits to citizens. However, financial institutions have offered measures to convert exclusion, such as; the introduction of easily accessible accounts by South African banking association in 2004, and the voluntary code for all to access accounts introduced by the Association of German Banker (Kempson, *et al*., 2004; Sarma, 2008; Warsame, 2009). Similarly, the central bank of Argentina in an effort toward improved financial inclusion, introduced certain incentives on account operations cost, account opening and directed all public and private entities to pay all wages into bank accounts of the employees (Tuesta *et al.*, 2015). In addition, effort to stimulate access to finance among low income group has also been traced to the simultaneous establishment of over 800 bank branches of Banco Azteca, by the Grupo Elektra, Mexico in 2002, mainly focused in providing affordable credit with low requirement for documentation, with special emphasis to the low income segment, who often denied access by the commercial banks mostly as a result of market failure (Bruhn and Love, 2014).

Accordingly, financial inclusion initiatives evolved with the recent Global financial inclusion agenda, such as the Maya declaration in 2011, the Global Partnership for Financial Inclusion (GPFI) and the Alliance for financial inclusion (AFI) and the recent dedication of Global financial development report (GFDR 2014) to financial inclusion and consequent measures by various policy makers around the Globe (World Bank Group, 2014). In addition, G20 Countries adopted explicit measures toward promoting financial inclusion in the global perspective (Allen *et al.*, 2016).

On the other hand, a growing body of literature measures financial inclusion across divergent indicators of access to finance, such as; the penetration of banking, services provided and their usage among different demographic and geographic contexts to guide financial inclusion (see for instance, Chen and Jin, 2016; Honohan, 2007; Sarma and Pais, 2008; Chakravarty and Pal, 2010; Popov and Udell, 2012; Sarma, 2012; Demirguc-Kunt, et al., 2013; Amidžić *et al.*, 2014; Cámara and Tuesta, 2014; Allen *et al.*, 2016).

4.7 Determinants of Financial Inclusion: A Literature Review

Identifying factors that determine access to financial services such as; individuals attributes is key in ascertaining proper policy initiatives to attain financial inclusion. Thus, much literature has emerged on the determinants of financial inclusion around the World (Naceur *et al.*, 2015). However, various definitions of financial inclusion are offered by institutions, and agencies, such as *"access to financial services", "responsible and sustainable provision of financial services", "affordable delivery to disadvantaged and low-income segments of society,"* and many others. For instance, the 2014 Global Financial Development Report (GFDR) by the World Bank defined financial inclusion as *the share of the population who use financial services*. Thus, Naceur *et al.,* (2015) described this definition as the most "*useful definition because it can be measured and incorporated easily into theoretical and empirical work and that it allows for measurement on a comparable basis across countries".* Hence, this study uses this definition to identify determinants of financial inclusion in Nigeria. Consequently, as global interest in the attainment of financial inclusion is rapidly broadening and taking economic centre stage, there has been a growing body of literature in the areas of identifying the determinants of financial inclusion.

Naceur *et al.* (2015) identified three main factors that promote financial inclusion across several countries. These include; a) structural factors which have to do with the cost aspect of providing financial services to the population, b) policy-related factors that create the enabling atmosphere for financial inclusion such as industry related competition which creates favorable loan, overdraft and credit line for firms. And, lastly c) non-policy-related factors such as inflows of remittances from abroad from family and friends, which encourage the owning of bank accounts by recipients, thereby promoting financial inclusion.

The literature on financial inclusion further pointed out that apart from the involuntary exclusion of individuals as a result of the factors mentioned in the preceding discussion, there are also voluntary factors that inhibit financial exclusion. There are people who do not wish to use the financial services and products offered by financial institutions for personal reasons, either cultural or religious (Beck and Demirgu, 2009), distrust of the system and affordability and inappropriate product designing (EC, 2008; Dittus and Klein 2011)

Allen *et al.*, (2016) reported that country characteristics such as stable political climate, efficient legal system, strong contract enforcement and high calibre institutions significantly influence financial inclusion . Sundaram and Sriram (2015) conducted a study in India titled; Financial Inclusion Determinants – An Empirical Investigation in Rural Regions of Vellore District, Tamil Nadu. The study used the Index of Financial Inclusion (IFI) model which consists of three dimensions and determinants including; a) availability of banking services,

b) level of banking service penetration and c) usage of such banking system. The study found that illiteracy and lack of awareness hindered financial inclusion in the region. Hence the study revealed moderate financial inclusion in the study area . Nandru et al. (2015) observed that income level and education have a substantial impact on financial inclusion. For instance, Zins and Weill (2016a) refer to three parameters of financial inclusion, (formal account, formal savings and formal credit). Having access to the first indicator - formal account - is attributed to individual attributes such as age, education level, and level of affluence. These findings substantiate Demirguc-Kunt et al. (2013) whose finding suggested a strong relationship between access to a formal account and income.

Sarma and Pais (2011) found that income, income differential, availability and usage of telecommunication facilities and literacy are common determinants of financial inclusion in the majority of countries across the world. Silva et al. (2016), in their study to establish the determinants of financial inclusion in Sri Lanka, document factors such as individuals' age, literacy level, documentation, trust in formal financial institutions, insurance, gender, an individuals' number of dependents, income level and distance to financial institutions as possible determinants of financial service inclusion.

Tuesta *et al.* (2015) analyses factors that determine financial inclusion from a micro-economic perspective in Argentina. The study identified three (3) dimensions from which financial inclusion is attained among the people; a) access to financial services and products as indicated by having formal account, credit and debit facilities, b) use of these services and products as indicated by age, education and income and finally c) barriers to financial services and products which is involuntary exclusion, due to person's level of income and age limitations. Sahoo et al. (2017) analyses the determinants of financial inclusion among the tribal people of eastern India. The findings indicated that educational level of the head of the household, size of personal land owned, size of annual income and participation in the *Mahatma Ghandi* rural employment scheme significantly determine financial inclusiveness among the tribal people in the districts of Odisha.

Chithra and Selvam (2013) carried out an empirical study to identify the determinants of financial inclusion with a view to examine inter-state variations among Indian states. This study identified three factors that determine financial inclusivity in the South Asian country.

Thus; a) socio-economic factors such as individuals' income, literacy and population; b) banking factors such as deposit and credit penetration and; c) physical infrastructures such as telephone facilities (both landline and mobile), road networks and internet service availability. The study indicated significant financial inclusion as a result of the association of the determinants. However, there is a wide inter-state variation in the level of financial inclusion among the 28 states in India. Cámara and Tuesta (2014) established that educational and income levels have significant influence on financial inclusion in Peru.

Uddin et al. (2017) examined the determinants of financial inclusion in Bangladesh. The authors used Dynamic Generalized Method of Moment (GMM) and the Quintile Regression Approach. The result of the study reported two different determinants of financial inclusion in relation to the supply-side and demand-side. On the supply side, the determinants include interest rates, service efficiency and bank size as significant determinants of financial inclusion whereas on the demand side, age, literacy and the number of dependents determines financial inclusion.

In Africa; especially in Ghana, Akudugu (2013) found demographic differences such as person's age, literacy level and socio-economic differences such as; wealth, poverty, social networks, improper documentation and family associates as significant determinants of financial inclusion. These services included accounts operations, savings mobilizations and credit delivery. Musa et al. (2015) report an empirical finding which suggested that; age, gender, income and educational levels play an important role in determining financial inclusion in Nigeria. Also in Zimbabwe, Abel *et al.* (2018) established that age, education, income, access to the internet and financial literacy promote financial inclusion. The study also reported that lack of proper documentation and proximity to financial service points have been found to promote financial exclusion. In Uganda, the study to uncover the determinants of financial inclusion was found to be quite different from those in most other parts of Africa. Akileng et al. (2018) analysed empirical data using correlation and regression analyses to evaluate factors that influence financial inclusion in Uganda. The findings indicated that financial literacy and financial innovation are better determinants of financial inclusion in urban and rural Uganda.

Again, Soumaré et al. (2016) investigated the factors that determine access to financial services in West and Central Africa with the aid of the Global Findex Database . The study revealed that the main factors influencing financial inclusion in the zone included, age, gender income, education, residential area, employment level and marital status. Other variables are the size of household and most importantly the degree of trust in financial service providers. However, while gender is an important determinant of access in Central African countries, income is an important determinant of access in the West African region. Allen *et al.* (2016) observed that population density has significant association with financial inclusion. The study also found that effectual and innovative mobile banking products and services impact on access to finance and therefore financial inclusion.

Evans and Adeoye (2016) using a dynamic panel data approach to investigate determinants of access to finance in Africa, found that per capita income, broad money (% of GDP), literacy, internet access and the recent achievements of Islamic banking operations have significantly increased the rate of financial inclusion on the continent. In Nigeria for instance, in the conservative northern region where the majority population are conservative Muslims, the emergence of Islamic (*Shari'ah* compliant) banking system (*Jaiz* Bank) in the nation's financial industry influenced many locals to own and operate Islamic financial products such as *Takaful*. There are those who owned and operate formal accounts with the institutions for the sole purpose of fulfilling contractual guidelines to secure interest free (Islamic) loans.

Further, Llanto and Rosellon (2017) examine a dataset from the National Baseline Survey of financial inclusion . The study analyzes financial inclusion from four different points of views. Thus; (i) transaction with formal financial institutions, (ii) savings account ownership, (iii) access to credit, and (iv) access to insurance. The result revealed that socio-demographic characteristics such as age, sex, income, civil status, education and employment status have a significant association with financial inclusion such as accessing financial products and services. The study further reveals similarities between the socio-economic status of those who use financial products and services and those who do not use them.

In their attempt to understand financial inclusion in China, Fungáčová and Weill (2014) document that older men who are better educated and wealthier have better chances of being financially included. The study also established that poorer people cited lack of money and a family member holding an account for common use as reasons for being financially excluded, while the better educated cited cost and trust as their reason. The study also notes that women are less likely to be financially included due to improper documentation and/or due to another family member holding a common account which they use. Further again, older people show concern over lack of money, distance from a banking service point, and other religious reasons. Finally, income and education determine peoples' choice of borrowing from formal or informal financial credit lines. However, education does not influence the choice to obtain higher credit from the formal financial sector. Lanie (2017) found variables such as age, sex, employment status, educational level and annual income as determinants of financial inclusion in West African Economic and Monetary Union (WAEMU), a result which shows consistency with studies such as Allen *et al.*(2016); Zins and Weill, (2016).

However, some studies suggest similar findings, for instance, Kempson et al. (2004) also highlighted key elements associated with financial exclusion as low-income, unemployed, rural residents; women are most likely to be excluded in the formal financial services. This finding is similar to Fungáčová and Weill's (2014) findings ; they assert that individuals with higher income and higher educational qualifications are more likely to have a formal account with financial institutions. However, they found an insignificant impact on formal credit and savings, while education tends to show significant relationship with formal credit. These findings are supported by Allen *et al.*, (2016) whose findings suggested holding formal accounts and savings is explained by educational levels, income, age, location and marital status, ratifying previous studies such as Demirgüç-Kunt and Klapper, (2013).

While examining the factors influencing financial exclusion in South Africa, Wentzel et al. (2016) evaluate nine factors that favour financial inclusion as claimed in the literature. Their result suggested that age, income, education, language and number of dependents are the important determinants of financial inclusion/exclusion. However, financial exclusion is found not to be influenced by relationship status, gender and house ownership. Their findings indicate that financial exclusion is not driven by geographic attributes of individuals. However, Demirgüç-Kunt *et al.* (2015) studied the propensity of Muslims to use formal savings, bank accounts, credit and being financially excluded, in 64 Countries using a sample of 65,000 adults. Their findings reveal that Muslims are less inclined to use formal saving and formal accounts than non-Muslims and indicated a difference in using formal credit between Muslims and non-Muslims. Furthermore, the study revealed that women, the poor and the rural and the less well educated dominated the financially excluded both among Muslims and non-Muslims.

Moreover, voluntary exclusion for religious reasons is often cited in Sub-Saharan Africa. To establish what barriers, lead to financial exclusion Demirgüç-Kunt *et al.* investigated the reasons for not holding an account; the findings suggest low income and other family members holding a shared account discourage individuals with low income from accessing financial services.

4.8 Socio economic attributes and financial inclusion: An empirical evidence

Following the recognition of the significance of financial inclusion on socio-economic development, the literature documents empirical evidence on the implications of inclusive financing on demographic attributes of economic agents. For instance, Allen *et al.* (2016), use data from the global findex (2012) to examine global perspectives on how demographics influence financial inclusion. The finding suggested that being richer, older, educated, employed and married significantly influenced individual's access to formal financial services and the same attributes apply to savings preferences. However, access to credit or the habit of borrowing is related to only four categories, such as, more affluent, men, who are older and married. While, studying access to financial services in China, Fungáčová and Weill (2014) consider three parameters of financial inclusion, (formal account, formal savings and formal credit). Having access to a formal account is attributed to individual attributes such as older males, and better educated and more affluent males. This finding substantiates Demirguc-Kunt and Klapper (2013) whose finding suggested a strong relationship between access to a formal account and income. However, this is not the case for savings, according to their findings, income has less effect on savings and formal credit. Educational background of individuals also significantly influences holding a formal account and access to formal credit, with the two dummy variables having different effects. While, both the variables have significant influence on holding an account, the dummy variable Tertiary education is more significant and is also related to formal credit.

Demirguc-Kunt, et al. (2013) used a sample of 65,000 adults from 64 economies and examined the impact of being a Muslim on holding a formal account, formal saving, formal credit, and barriers to financial inclusion. They find that Muslims resort significantly less to formal account ownership and formal saving than non-Muslims. However, Muslims would not be less likely to borrow, either formally or informally, than non-Muslims. The typical categories excluded from formal financial systems (the poor, the less educated, women and rural adults) are the same for Muslims and non-Muslims. Moreover, religion is cited as a barrier to financial inclusion by Muslims, but this result is more frequent from respondents in Sub-Saharan Africa. When investigating the barriers to financial inclusion, the findings suggested that low income is related to various reasons for not holding an account. However, other family members with accounts are mitigating individuals with low income from accessing financial services. A study by Fungáčová and Weill (2015) investigated the determinants of financial inclusion in China, taking into account the demographic profiles of adults in China. Their findings substantiate the view that improved income and educational level positively influence access to formal borrowing, and indeed men and the elderly enjoy access to bank accounts and credit in China. On the one hand, examining the factors influencing financial exclusion in South Africa Wentzel et al. (2016) evaluated the nine factors that favour financial inclusion as claimed in the literature. They found that age, income, education, language and the number of dependents is determinants of financial inclusion/exclusion. However, financial exclusion is found not to be influenced by relationship status, gender and ownership of house. Remarkably, their findings indicated that financial exclusion is not driven by geographic attributes of individuals.

In their study Sundaram and Sriram, (2015) conclude that, illiteracy and unemployment are the major factors instigating financial exclusion in rural areas of India. Hence, the government suggested an intervention to reduce illiteracy and unemployment to attain inclusive financial system among rural dwellers of India. According to Allen *et al.*, (2016) having a formal account is associated with individual attributes, such as, income, educational background, marital status, old age and employment status. Following the recognition of the significance of financial inclusion on inclusive development, literature has documented various empirical evidence on the determinants of financial inclusion.

Allen et al. (2016) use data from global findex (2012) to examine global perspectives on how demographics influence financial inclusion. Their findings suggest that being richer, older, educated, employed and married significantly influenced individual’s access to formal financial services. However, access to credit or the habit of borrowing is related to only four categories, such as, richer, men, older and married. Similarly, Zins and Weill (2016) consider three parameters of financial inclusion, (formal account, formal savings and formal credit). Having access to the first indicator formal account is attributed to individual attributes such as older men, more educated, richer. This findings supports Demirguc-Kunt and Klapper (2013) whose finding suggested strong relationship between access to forma account and income. However, this is not the case for savings, according to their findings, income has less effect on savings and formal credit. Educational background of an individual also significantly influence holding of a formal account and formal credit, with the two dummy variables having different effects.

4.9 Financial Literacy

As the promoters of financial inclusion articulated financial literacy is a vital element for realizing the essential impact of access to finance on individuals and the economy, . Ramakrishnan (2012) describes financial literacy as the primary stride towards attaining an inclusive financial system. This is because financial literacy enables the effective use of scarce resources, provides ideas about the importance of investments, savings and their related outcomes, and sources of borrowings. Hence, it facilitates efficient and effective management of resources that will stimulate financial stability and development in an economy.

The proposition that made financial literacy as first point towards attaining financial inclusion is apparent as it informs individuals about financial products and services, (such as savings, investment, risk management) and their associated significance. Facilitates informed decision on resources management, future planning. Hence, stimulates financial inclusion and stability. Affirmative to this is OECD/INFE (2013), where survey conducted in Organization for Economic Co-operation and Development OECD's implies a strong correlation between financial literacy and inclusion, as the findings from all OECD's suggested that financial products awareness is the first step toward access to financial services and possible step towards breaking financial exclusion dilemma. Financial literacy is not only useful in promoting financial inclusion, it also improves stability in the financial industry, buy stimulating savings mobilization, risk management, create awareness of complex financial instruments and discourages bad lending. For instance, access to formal credit has been deter by financial illiteracy among Chinese households. Financial literacy is reported to be low among individuals in China, which has a significant negative impact on their ability to access credit (Chen and Jin, 2013).A lack of financial awareness is significantly influencing voluntary exclusion among individuals (Demirguc-Kunt and Klapper, 2013). Studying the Global findex survey, Demirguc-Kunt and Klapper (2012) found that significant gap exists between levels of access to financial services between adults with advance educational qualification and those with the lowest qualifications, especially adults in Sub-Saharan Africa. Thus, the importance of education, especially financial literacy, to enhance financial inclusion is universally stressed.

4.10 Dimensions of financial Inclusion

Financial inclusion is a multi-dimensional process, associated with different dimensions. For instance, Bhuvana and Vasantha (2016) in an attempt to measure financial inclusion levels, developed an index of financial inclusion using three dimensions of financial inclusion that include bank penetration, deposit and credit penetration. The first dimension includes all banking services that include but is not limited to servicing receipts and transfers. It generally involves transmission services which financial institutions undertake, through branches, ATMs and mobile banking. The second dimension involves assurance, insurance, credit and savings, and private pension administration services. Under this dimension, customers are provided with long term and medium-term financial cover against unforeseen income fluctuation. Finally, the third dimension involves the provision of loan services to facilitate the business initiatives of enterprising individuals. For example, it could be a loan to facilitate import/export trade or as start-up capital.

Thus, various dimensions are considered in measuring inclusiveness in the financial system, these includes; Penetration, availability and usage of financial services across geographic and demographic context. Therefore, several indicators are used to gauge information on these dimensions, such as; the number of people per bank branch, number of ATMs per 1000 people, number of loan and deposits per 1,000 people. These indicators provide useful information on level financial services penetration, availability and usage across economies (Kodan and Chhikara, 2013). On the other hand, Honohan, 2007; Sarma, 2008, 2012, Chakravarty 2007 measure financial inclusion on the perspectives of services availability and usage, using aggregate supply side data. Cámara and Tuesta (2014), argue that these dimensions are both limited to explain financial inclusion. Though, high level of services availability such as; number of branches and ATMs are good measure of inclusiveness, but partial, as geographical information on this penetration are not available. Similarly, usage of formal financial services is associated with certain socio-economic elements. As these provides asymmetric information on the inclusiveness of financial system, barriers perceived in accessing financial services is paramount in understanding financial inclusion. On the other hand, Beck (2016) claims that monitoring inclusion through measuring is prone to manipulation and interference. Therefore, it is essential to adopt bench-marking methods to achieve reliable and sustainable inclusiveness.

Accordingly, to gauge inclusiveness in the financial systems, a multi-dimensional index of financial inclusion is proposed by several studies. For instance, Cámara and Tuesta, (2014) and, Amidžić et al., (2014) proposed a multidimensional index of financial inclusion that explains the extent of financial inclusion, using various dimensions that comprise information on different perspectives of financial inclusion. Nevertheless, the dimensions and methodologies used for each study vary. On the other hand, Honohan, (2007) uses a combination of secondary and survey base data on the number of household adults with bank accounts to examine the extent of financial system accessibility . Demirguc-Kunt and Klapper (2012) in their study explain the level of inclusiveness of financial systems in 148 countries by identifying some key indicators of financial inclusion, such as the number of adults with accounts, the number of adults that save and adults with access to credit either through formal or informal channels. Sarma (2012) claims that his proposed IFI can be adopted in measuring the inclusiveness of financial systems using micro or macro level data, at different times and for any economic hierarchy (such as; National, Regional or State level). While Chakravarty and Pal (2010) argue that sectional (individual) dimension of financial inclusion cannot provide comprehensive details on the state of financial inclusion of an economy, rather it can provide information on a segment of financial inclusion. Therefore, they designed a theoretical framework that can be used to gather information on different dimensions of financial inclusion of a country. On the other hand, Hannig and Jansen (2010) suggested that efforts to expand access to financial services should incorporate information on barriers to inclusion, these can be either geographic or socioeconomic factors such as absence of nearby bank branches and/or financial services inaccessible to specific income or ethnic groups and complex documentation, high maintenance cost and marketing problems.

4.10.1 Access to Financial Services

Access refers to the individual's ability to use the services and products offered by the financial service sector (Beck et al., 2007). In other words, access to financial service reflects the depth of outreach (physical reach) by the financial institutions. To achieve the access dimension of financial inclusion, it is essential that proximity to service points such as bank branches, Automated Teller Machines (ATMs)and financial service agents is necessary. Indicators for access to financial services are measured in proportion to the population of the area where such service infrastructures are located (Beck, 2007; CGAP, 2012). Thus, according to the Financial Inclusion Data Working Group (FIDWG) of the Alliance for Financial Inclusion (2013), the access indicators of the core set are;

- i) number of access points per 10,000 adults at a national level segmented by type and administrative unit,
- ii) percentage of administrative units with at least one access point, and
- iii) Percentage of total population living in administrative units with at least one access point.

According to the World Bank's Global Findex, 20% of the 2.5 billion individuals reportedly excluded from financial institutions worldwide cited physical access to a point of service as being the major barrier for their inability to have an account in a formal financial system

(Demirguc-Kunt and Klapper, 2012 P 3).Other potential barriers to access may include cost of service and geographical proximity to financial service.

4.10.2 Quality of Financial Products and Service Delivery

This refers to the quality of financial services and products which are offered to potential customers. Others include features such as transparency, safety, fair pricing, client value, and other core tenets of consumer protection and financial capability. Quality, according to Cabrera and Villarreal (2016) refers to the capacities of financial institutions to offer, to their clients, services and products consistent with the characteristics of the clients and capable of satisfying their needs. In addition, quality means the capacity of the users of financial services and products to evaluate and make sensible use of what is on offer and, at the same time, the capacity of regulators and supervisors alike to ensure sustainability, consumer protection and the overall goal of financial inclusion.

4.10.3 Availability Indicator

Financial services availability is regarded as the most important indicator of financial inclusion because availability of the services explains the first step of access. Sarma (2012) opined that an inclusive financial service consists of timely and available services to individuals as illustrated by the number of Bank branches and ATMs as a proportion of the population. Accordingly, branch availability will enable users of financial services to open accounts. (Demirguc-Kunt and Klapper, 2012) opined that holding a formal account serves as an entry point into the formal financial services, which in turn allows access to payments, remittances and receipts, it stimulates savings and facilitates access to loans, while ATMs facilitate the basic services required by account holders such as; withdrawal, deposits and payments services.

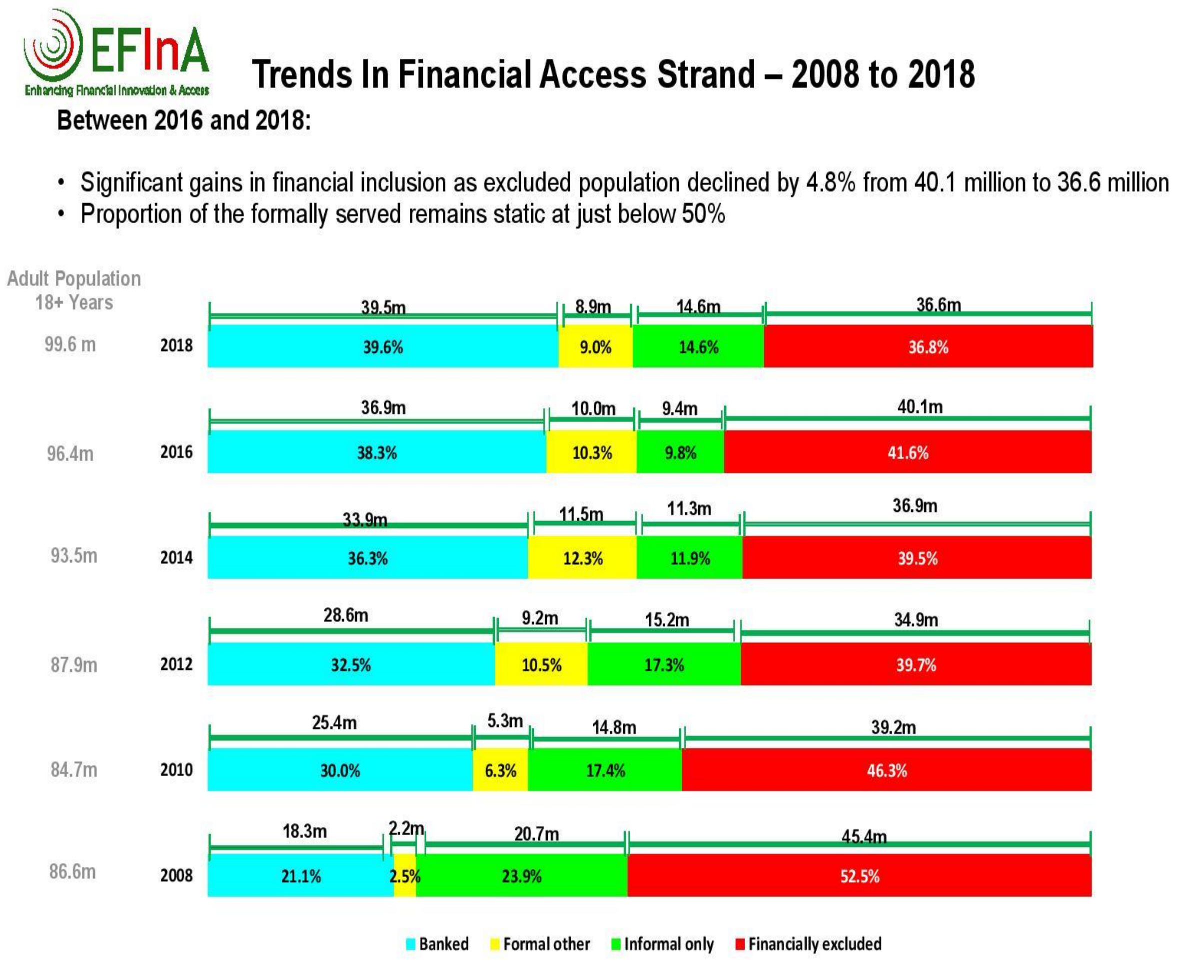
4.10.4 Usage Indicator

Use of formal financial services is an important tool for measuring inclusiveness in financial systems. However, usage varies across individuals and products. Several studies attempted to measures the use of different financial products to determine inclusiveness . Demirguc-Kunt and Klapper, (2012) was the first study to analyze how individuals use financial services to provide insight on individual's approach to savings, payments, borrowing and the management of risk. For example, globally unbanked adults reported as 50% of which 54% lived in developing economies, while high income countries recorded only 11%. This indicated a high degree of formal financial services usage in high income countries. However, 26% of the global account holders reported payment or receiving funds using the account with significant percentage from high income countries.

4.11 Financial Inclusion in Nigeria

Efina (2018) reported that about half of Nigeria's adult population – 3.6 million, are financially excluded. The government in its effort to stem the high percentage of exclusion, rolled out the National Financial Inclusion Strategy, at the end of which a substantially higher number of Nigerians would have been included in the formal financial system (Demirguc-Kunt et al, 2015). Nigeria's apex bank, the Central bank of Nigeria (CBN) described financial inclusion as the delivery of affordable financial services and products to low-income and unbanked adults (CBN, 2011). In line with this definition, it is therefore expected that the larger percentage of adult Nigerians who because of their financially disadvantaged circumstances are left out of the formal financial system are keyed in without any form of restriction. Such services according to Aro-Gordon (2016) are bank accounts; Savings; Insurance; Payments/remittances; affordable credit facilities; financial literacy and counseling. However, in cognisance of the economic importance of financial inclusion among the adult population in Nigerian, the federal government embarked on a National Financial Inclusion Strategy (NFIS) in October 2012 in order to reduce the number of financially excluded adult Nigerians from 46.3% in 2010 down to 20% by 2020. The Nigerian financial inclusion strategy (NFIS) a rigorous financial inclusion blueprint when successfully implemented is expected to increase the percentage of adult Nigerians population having access to formal financial services by 2020 (EFInA, 2017). In an attempt to realize these objectives, the country's principal financial service regulator – the Central Bank of Nigeria (CBN), in conjunction with other relevant agencies proposed strategic measures to boost financial inclusion.

Figure 4.1: Financial Inclusion Trend among Adult Nigerians (2008-2018)



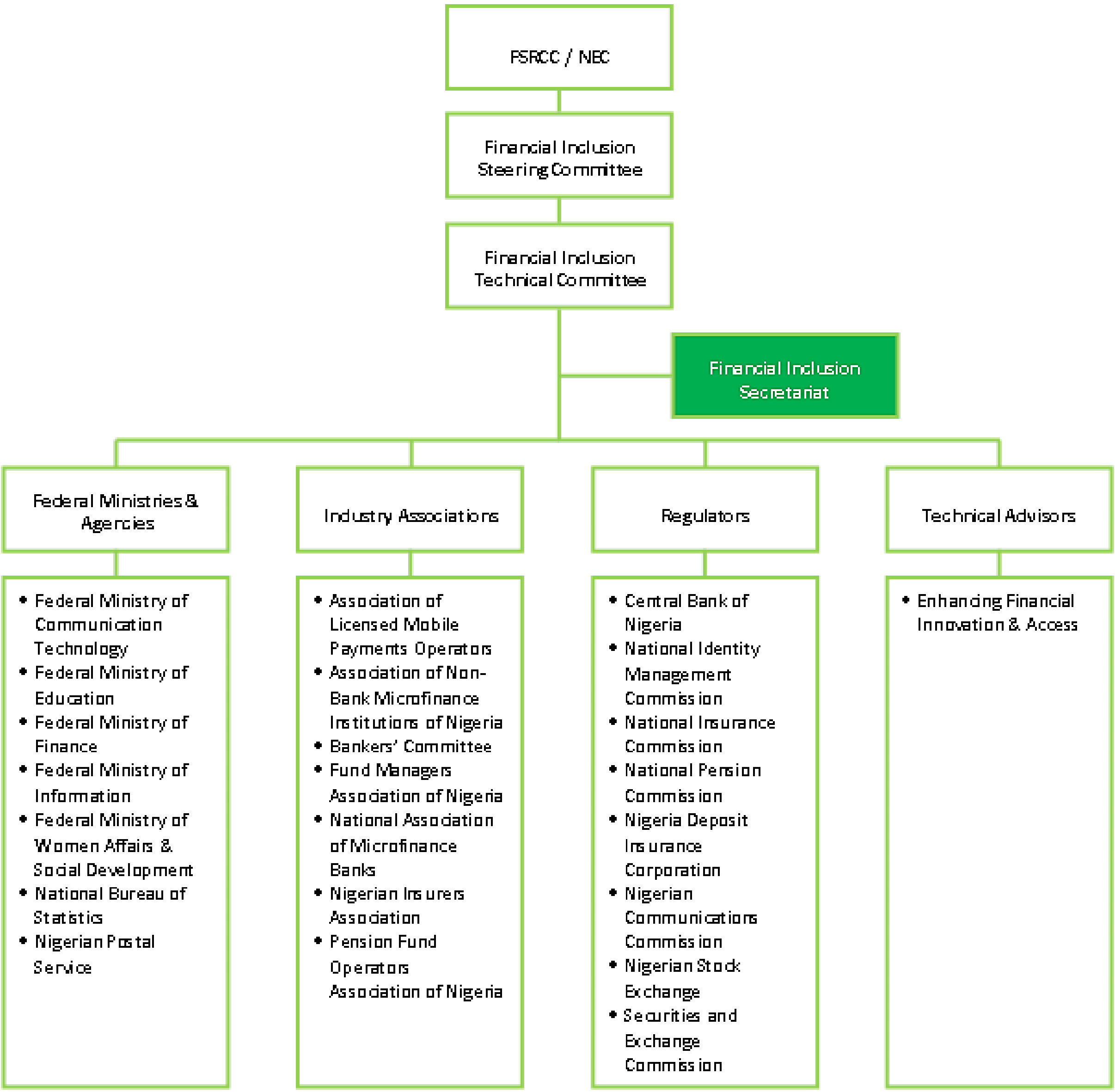
Source: Efina (2018)

4.12 Nigerian financial inclusion Strategies

One of the major Sub-Saharan African countries striving to create an additional platform to provide more financial services to its people is Nigeria. This is because a substantial number lack access to formal financial services. Efina (2018) reported that a significant number of the adult population in Nigeria is financially excluded 60.4% percent of adults in Nigeria are unbanked, 45.3% are not saving, 69.0% have no access to credit and 36.8 are financially excluded. The exclusion level varies among the geographic and demographic contexts. For instance, the North-western pa-rt recorded 62% exclusion compared to 55% in the North East, 31% North-Central, 19% South-West, 29% South-South and 23% South-East respectively. Among the demographics the age group between 18 to 25 years recorded more exclusion with 47.0%, followed by 56 years and above with an exclusion rate of 41.4% (EFInA, 2016), the highest in Sub-Saharan Africa. Though, prior to this, Nigeria witnessed decreased exclusion rates as a consequence of policy response, this includes; the 2009 mobile money framework, policy framework on non-interest banking windows, modification to the Micro finance banking guideline in 2011, and financial literacy policies in 2012 (Onaolapo, 2015).

Consequently, encouraged by the previous policies and as one of the members to the 2011 Maya declaration, Nigeria adopted further strategies to convert financial exclusion and enhance access to financial services, especially among less privileged groups, based on benchmarking methods as adopted by Maya Member Countries. Prominent among these were; enhancing access to savings, payments, credit and risk management facilities, though, improved banking infrastructures such as; branches, ATMs and financial services innovations (CBN, 2012). In addition, the apex bank also promotes inclusion through financial literacy and 'know your customer' and credit enhancement initiatives (Efobi et al., 2014). Nevertheless, despite this strategy the survey indicated a rise in the number of banked adults between 2014 and 2016 from 36.3% to 38.3%, this is however, accompanied by an increase in financially excluded adults from 39.5% to 41.6%, which is attributed to a decline in access to non-banking financial services, and subsequent reductions in micro finance institution customers from 2.6 million to 1.8 million with a significant portion from the Muslim dominated Northern region of the country (EFInA, 2016). In addition, the initiatives appear to give less emphasis to gender equality, as the survey suggested an increase in the gender gap from 7.3 to 20.7 in favour of male adults (Alliance for Financial Inclusion, 2016). This substantiates the claim by Demirguc-Kunt et al., (2013) that Muslims are most likely to be excluded. Accordingly, there has been an effort to reduce religious based voluntary exclusion created by the inability of conventional micro finance banks in achieving the primary objective of micro finance institutions. Nigeria's apex bank developed a guide line on the supervision and regulation of Islamic micro finance banks and established the Anchor borrowers' program to stimulate inclusive development through enhanced financial inclusion (CBN, 2016). To achieve this end, the Central Bank of Nigeria developed a financial inclusion framework as presented in Figure 4.2. As depicted below, the financial inclusion secretariat is hosted by the apex bank and all relevant ministries, departments and agencies are involved in dispensing this goal.

Figure 4.2: Nigeria's Financial Inclusion Framework



Source (CBN,2018).

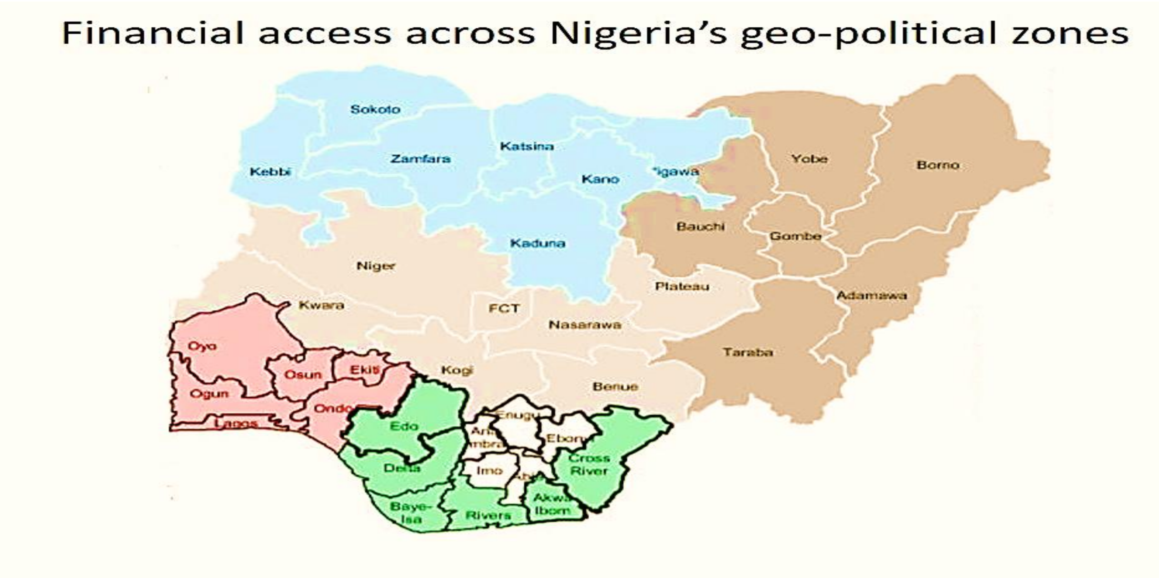
Primarily financial inclusion is driven by conventional brick-and-mortar banks and bank accounts in Nigeria. (Iliasov & Mirzoyant, 2014). Currently the CBN is pilot testing the mentioned strategy in Borno state,among the states with the highest share of financially excluded adult Nigerians under the aegis of the newly inaugurated Financial Inclusion State Steering Committee (FISSCO) (CBN, 2018). Other vital financial inclusion schemes are mobile payments, Electronic Payments, cashless policy, Regulation of Microfinance Banks (MFBs), Deposit Money Banks (DMBs) and the introduction Non-Interest Banking (Islamic Banking). Others are loan assessment, and credit threshold for low income clients, all with the intent of encouraging the financial inclusion of Bottom of Pyramid (BoP) customers and at the same time reducing attendant risks and financial improprieties (EFInA, 2014; CBN, 2013).

4.13 Financial inclusion in Nigeria: Stylist Facts

In comparison to its peers in Sub-Saharan countries such as Kenya, Nigeria has been lagging behind in terms of financial inclusion. Currently 58.4% (56.3 million) of its 96.4 million adult population (18+ years and above) as at 2014 is financially included. The remaining 41.6% of the adult population in Nigeria as at 2016 are unfortunately financially excluded (EFInA, 2017). Enhancing Financial Innovation and Access (EFInA) – a financial development initiative funded by the DFID and Bill & Melinda Gates Foundation issued a projection towards achieving 80% financial inclusion target in Nigeria by the year 2020, predicts that 78.9% of the adult population will be financially included while the financially excluded will stand at 21.1% . Also, compared to Kenya and South Africa, Nigeria still fell behind in terms of formal payment penetration. Formal payment penetration in the country stood at a mere 21.6% which is far below the 46% in South Africa and Kenya. Credit penetration and insurance penetration as indicators of financial inclusion in Nigeria are also worse. Available statistics show that credit penetration is only 2% compared to 32% in South Africa while insurance penetration stood at an insignificant 1% which is a far cry from South Africa's 30% (EFInA, 2014; Mbutor & Uba, 2013). Presently, financial exclusion is most evident in the Northern region and particularly in the North West zone where up to 70% of the total population is financially excluded. Nationally, the profiles of financially excluded region in the six geopolitical zones indicated that the North East and the North West together have the highest percentage of exclusion, which stood at 56.6% of the total national exclusion figure. Individually, the North East has 62% of its total bankable population excluded while the

North West has 70% of its total bankable population financially excluded. A close look at the statistics also indicated that 61.5% are under 35 years and 55.1% are female.

Figure 4.3: Financial Access Across Geo-Political Zones



South South	2012	2014	2016
Total Adult Population	14M	15M	16M
Formally Included	52%	52%	55%
Informal Only	18%	15%	14%
Financially Excluded	30%	33%	31%

North West	2012	2014	2016
Total Adult Population	19M	21M	22M
Formally Included	23%	35%	24%
Informal Only	14%	9%	6%
Financially Excluded	64%	56%	70%

South East	2012	2014	2016
Total Adult Population	12M	12M	12M
Formally Included	52%	63%	59%
Informal Only	22%	11%	13%
Financially Excluded	26%	25%	28%

North East	2012	2014	2016
Total Adult Population	11M	11M	12M
Formally Included	26%	26%	25%
Informal Only	15%	5%	14%
Financially Excluded	60%	68%	62%

South West	2012	2014	2016
Total Adult Population	19M	20M	21M
Formally Included	58%	63%	78%
Informal Only	18%	13%	4%
Financially Excluded	25%	25%	18%

North Central	2012	2014	2016
Total Adult Population	13M	14M	14M
Formally Included	48%	49%	48%
Informal Only	20%	19%	14%
Financially Excluded	32%	33%	39%

Source: (EFInA, 2016).

The table above reminds us of the tremendous amount of work facing the Nigerian government in meeting its 2020 financial inclusion target. However, the President of the World Bank Group, Jim Yong Kim, at the UNSG's HLP meeting on the Post-2015

Development Agenda in Bali, expressed his optimism for meeting national targets in countries such as Nigeria when he stated that: "Universal access to financial services is within reach – thanks to new technologies, transformative business models and ambitious reforms. As early as 2020, such instruments as e-money accounts, along with debit cards and low-cost regular bank accounts, can significantly increase financial access for those who are now excluded."

4.14 Financial Inclusion in Nigeria: Implementation Environment

Nigeria's estimated population of one hundred and eighty million (180,000,000) is made up of adult population of ninety-six million and four hundred thousand (96.4m). The majority of this figure is employed in the non-formal sector of the economy yielding little earnings as income. Out of this, fifty-nine million six hundred thousand (59.6m) adults are based in the rural areas where the primary occupation is farming – which is by nature seasonal – meaning that income from farming fluctuates in accordance with the seasons and is therefore unstable.

Nigeria is oil revenue dependent; and as a result of the decline in oil price between 2014 and 2016, the nation's economy drifted into recession in the first half of 2016. The fall in oil price continued to decline until it was reflected in the plunge in Household (HH) consumption year on year by 1.05%, beginning in the first quarter of 2016 and escalated to 6.00% by the second quarter of the same year, due to rising inflation which eroded the purchasing power of consumers. During the same period, unemployment rose by 12.1% and 13.3% as against 7.5% and 8.2% in 2015. The indices below represent Nigeria's current economic environment within which the National Financial Inclusion Strategy (NFIS) is being implemented. All data were sourced from the databases of the National Bureau of Statistics (NBS) 2018, and the Central Bank of Nigeria (CBN, 2018). According to the National Bureau of Statistics (NBS) the country's inflation rate experienced four consecutive declines since January 2017.

The major occupation of the adult population is farming (15%) which is a seasonal occupation hence income from that sector is not stable and is subject to fluctuation. Shop owners (12%) and business owners (9%) also have an income that is unstable as their incomes largely depend on the seasonality of farming and the relative economic activity as a result. The remaining categories – tailoring (7%), manual labour (4%), drivers (4%) and street hawkers (2%) are also small enterprises which yield meager and unstable income. The only occupation that guarantees stable and significantly higher income on the chart is the professional category which includes doctors, teachers, etc but these constitute an insignificant 5% of the Nigerian adult population.

4.15 The Financial Inclusion Strategy 20:2020 (FSS 20:2020)

One of the critical initiatives which go a long way in addressing financial inclusion in Nigeria has been the Financial System Strategy 20:2020 – a financial sector development roadmap which is geared towards catalyzing the nation's financial sector to become the engine room to launch the economy to become among the 20 strongest in the world. The FSS20:2020 was prompted by the predictions of Goldman Sachs which stated that Nigeria is among the eleven emerging economies with potential to be among the 20 largest economies in the world. The FSS20:2020 identified six financial service providers as critical stakeholders in the financial service sector value-chain. They are the banking sector, other financial institutions (non-bank), the insurance sector, the capital market, the pension sector, and technology providers. The overriding objective of the FSS20:2020 was to strengthen and intensify the domestic financial institutions by improving integration and promoting sustainable economic growth to facilitate the evolution of the economy into the global center stage. Komolafe (2017) asserted that the success of the FSS20:2020 has been demonstrated in the mortgage sector with the establishment of a robust secondary mortgage market, the Nigerian Mortgage Refinancing Company (NMRC).

The FSS20:2020 has also brought radical changes in the nation's payment system with the adoption of electronic payment channels which include the Central Bank of Nigeria Immediate Transfer Service (CBSITS) and the Interbank Fund Transfer (IFT) to improve efficiency in payment transactions. Others are the Nigeria Electronic Fund Transfer (NEFT), Electronic Cheque Clearing (ECC) and the Bank Verification Number (BVN). Intervention has also been advanced in the Small and Medium Enterprises (SMEs) sector by way of easing access to funds for aspiring entrepreneurs. There was also the creation of the National Collateral Registry (NCR) which facilitates loans for SMEs, and the passage of the Nigeria Movable Asset bill into law by the National Assembly. In the pension sector, there was an impressive increase in the value of pension assets from N3 trillion in 2013 to N6.02 trillion in 2017, which is managed by the Nigeria Sovereign Investment Authority (NSIA) as advisers for the placement of the funds into long term infrastructural development across the country.

4.16 Conclusion

This chapter presented the literature review on financial inclusion and its determinants, where various economic implications of access to formal financial services and the consequences of financial exclusion are discussed. The Chapter also discusses the trend towards financial inclusion and concluded that financial inclusion strategy and implementation found that access to basic financial services such savings accounts are associated with various economics implications to the less privileged segments of the society. However, the chapter found that socio-economic attributes of individuals such as, gender, educational background and income are highly associated and capable of influencing individual's access to formal financial services. Furthermore, the chapter explores the global policy response to financial inclusion and identifies indicators and measurements of financial inclusion.

Chapter Five

Research Method

Chapter 5

Research Method

5.1 Introduction

This chapter describes the methodology used in this study. The chapter comprises the philosophical paradigm, research approach to the study, research design, population of the study, sample size and sampling technique, research instruments, data collection technique and data analysis methods. The chapter starts with a review of the literature on the study's relevant philosophical paradigm, followed by the research approach and design. The chapter also explains the data collection and analysis methods and explains the reasons for each. The dependent and independent variables, and the econometric model specification for the study are also explained. The chapter also outlines the pilot study conducted.

5.2 Research Philosophy

Traditionally, the philosophical research paradigm reflects the process of developing, as well as what constitutes, knowledge; consequently, this influences the conduct of the research (Saunders *et al.*, 2003). Therefore, the philosophical paradigm fundamentally informs the selection of the methodology, research design and methods, all of which position the study (Noella and Knipe, 2006). Hence, an appropriate research approach is determined by the nature of the phenomenon under investigation (Smircich and Morgan, 1980). Saunders *et al.* (2012) opined that research questions, methodology and interpretation unavoidably depend on the assumption of the researcher about knowledge and the nature of reality. Thus, the philosophical assumptions of the researcher tend to determine the research strategy and methods. Flowers (2009) asserts that the philosophical underpinning of the research significantly influences the research process, from bottom to top.

There are two categories of research philosophy - ontology and epistemology. The former reflects how the researcher views the nature of reality; "*Ontology implies a study of being*" (Micheal Crotty, 1998 p. 10). Flowers (2009) asserts that the ontological position can refer to the assumption of the researcher as to what makes reality; does reality really exist objectively or subjectively according to the individual perception? On the other hand, epistemology describes the process of acquiring knowledge (Hatch and Cunliffe, 2006). Epistemology is a process of understanding the nature of knowledge and relates to "*How is it possible, if it is, for us to gain knowledge of the world?*'' (Hughes and Sharrock, 1997 p. 5). Moreover, ontology has two different aspects regarding how reality exists, namely objectivism and subjectivism. Objectivists argue that reality exists external to the researcher. Bryman (2012) asserts that objectivism denotes the existence of social reality as independent of the researcher or social actors. Therefore, the social phenomena under investigation are independent and external to the researcher and the social world exists separately. However, subjectivists hold the view that perceptions and the consequent actions of social actors represent social phenomena (Saunders et al., 2016).

However, there are three common epistemological positions, which all denote different assumptions - positivism, interpretivism and pragmatism. For instance, positivists claim that anything that is not directly observable does not exist, therefore, only propositions that can be directly tested empirically constitute valid knowledge (Lee and Lings, 2008). Similar to natural scientists, positivists establish law-like generalizations through the empirical examination of data generated from existing theory (Saunders et al., 2012). Hence, the researcher is external to what is being observed. In comparison, interpretivists oppose the notion that social phenomena can be examined in the manner of natural science. They emphasize that the social world cannot be interpreted by examining a series of law-like generalizations, hence social actors are responsible for the interpretation of their own social phenomena (Saunders et al., 2012). The social world is interpreted through the perceptions, experiences and memories of social actors (Flowers, 2009). Because social actors are diverse with different social backgrounds, they create meanings at different times under different circumstances (Saunders et al., 2016). Therefore, as a social actor, the researcher needs to understand the differences between humans (Saunders et al., 2012). On the other hand, pragmatist research is underpinned by a foundation of mixed methods. Johnson & Christensen (2011), Schafft & Catharine (2015), and Saunders et al. (2016) advocate a combination of both positivist and interpretivist paradigms to allow for the use of both quantitative and qualitative methods. Thus, the pragmatist viewpoint considers that the social world can be observed in different forms and that there are various ways of conducting research, as several realities may exist (Saunders et al., 2012). Therefore, only concepts that support action are considered applicable in pragmatism (Saunders *et al*., 2016).

Based on the above summary, this study adopted a pragmatic paradigm, which allows for the combination of positivist and interpretivist paradigms within a study (Johnson and Christensen, 2011; Schafft and Biddle Catharine, 2015; Saunders et al., 2016). Moreover, Collis and Hussey (2014) claim that the adoption of a paradigm is determined by the research question(s). Hence, pragmatism allows for mixed research approaches when answering different research questions (Johnson and Onwuegbuzie, 2004); accordingly, the adoption of a pragmatic paradigm aligns with the main objectives and research questions of this study. This also substantiates the views of Saunders et al. (2016) who posit that the pragmatist position believes that multiple realities may exist and that a single point of view cannot give an holistic description of a phenomena. Therefore, adopting a singular philosophical paradigm in search for appropriate research method is inadequate (Denscombe, 2010).

5.3 Research Strategy

A research strategy can be deductive, inductive or abductive. A deductive approach implies that research will be carried out in a manner that moves from a general to a precise point, and where existing literature is explored to further confirm its validity by analysing the data collected (Pisters *et al.*, 2016). On the other hand, an inductive approach implies theory formulation by collecting data about the phenomena under investigation (Saunders et al., 2016). This approach limits theoretical constraints and allows for a flexible understanding of how social actors react differently in the real world. The third approach to social research is abductive, which is a combination of both deductive and inductive; it often starts with an acceptable observation and leads to the discovery of more facts about a phenomenon (Saunders et al., 2016).

Accordingly, this study evaluates the impact of compliance with Islamic financial principles and the use of Islamic finance products to promote financial inclusion in Nigeria. Given the nature of the research objectives and questions, this study adopted an abductive approach. This reflects the views of Saunders et al. (2016) who argue that applying only one approach to research can be misleading; therefore, a combination of deduction and induction methods have been used in this study.

5.4 Research Design

The research design sets out clear guidelines and values from the top to the bottom on the research process and how it is conducted. The study conducted must adhere to the research issue under investigation and the process of carrying out the research should be transparently achievable. Research design therefore is determined by the nature of the phenomenon under investigation and the availability of resources. The chosen design will collect data from the real world This provides a necessary procedure for the conduct of the research (Hair, Jr. *et al.*, 2007). Alternatively, Lee and Lings (2008) outlined the substantial benefit of a research design in stating that it provides guidance on how to test your theory by collecting data.

There are three principal categories of research design - explanatory, exploratory and descriptive (Mohammad, 2017). The exploratory research design applies when the information available to the researcher is limited or when the researcher lacks sufficient relevant data (Hair, Jr., 2007). However, explanatory research implies the study of causal relationships between variables of interest (Sunders and Lewis, 2012). Hence, exploratory research explains the relationship between key variables. On the other hand, a descriptive research design describes phenomena by collecting relevant information on the phenomenon under investigation (Hair, Jr., 2007). Given the nascent Islamic banking and financial system around the globe and within Nigeria in particular, the primary objective of this study is to explore the theoretical background of Islamic finance and financial inclusion, in order to constitute the measurable variables established from the literature and to explain these variables empirically. Therefore, this work is designed as an exploratory and explanatory study.

5.5 Research Methods

Various procedures are involved in data collection and analysis. This study uses both survey and secondary data to answer the research questions. Hence, the study adopted mixed research methods to incorporate both qualitative and quantitative data and thereby achieve the research objectives. Mixed research uses quantitative and qualitative methods, paradigms and approaches (Waziri, 2016; Bature, 2014). A study that adopts both qualitative and quantitative research methods (namely mixed) can be validated through a process called triangulation (Brannen, 1992; Trochim, 1999; Johnson and Onwuegbuzie, 2004; Creswell, 2013). Accordingly, Brannen (1992) and Creswell (2013) posit that combining qualitative and qualitative methods, paradigms, and data collection approaches in a given study is termed mixed method. However, the applicability of mixed research methods is determined by the research questions, resources and research environment (Johnson and Christensen, 2010). Therefore, this approach amalgamates the strengths and weaknesses of qualitative and quantitative methods to add to the study's rigour and ensure the findings are robust (Johnson and Turner, 2003; Lincoln and Guba, 1985).

5.5.1 Research Methods for Data Collection

This study uses both primary and secondary data. A sample survey is used as a collection method for primary data. This is in line with Warsame (2009) who argue that the sample survey is the most appropriate data collection method for exploratory research. Sekaran and Bougie (2016) recommend surveys as a method of data collection when investigating individuals' perceptions, attitudes, knowledge and behaviors concerning phenomena; this method facilitates the collection of quantitative and qualitative data based on the research questions. Maylor and Blackmon (2005) assert that the survey plays an important role in the collation of beliefs, facts, behaviors and opinions. Importantly, survey data enable the generalization of entire populations by performing quantitative analysis (Park, 1889). Accordingly, in order to provide germane answers to the research questions, questionnaires and semi-structured interviews are used to collect data from the adult population in Nigeria, in particular from Islamic financial services providers, regulatory authorities and experts. Gray (2004) posits that, when gathering information about organizations and individuals' activities, perceptions or beliefs, questionnaires and interviews are widely used as these methods offer, as far as possible, an unbiased means of gathering data; thus, information can be collected from multiple interviewees to answer similar sets of questions. Furthermore, if secondary data is unavailable, it facilitates the collection of primary data (Maylor and

Blackmon, 2005). This study uses a recent survey conducted by the World Bank Group (Global Findex, 2016) to identify the determinants of financial inclusion, whilst the Jaiz Bank Financial Statement (2011-2018) and annual data from Enhancing Financial Innovation and Access (2010-2018) are used to examine the impact of Islamic finance on financial inclusion in Nigeria.

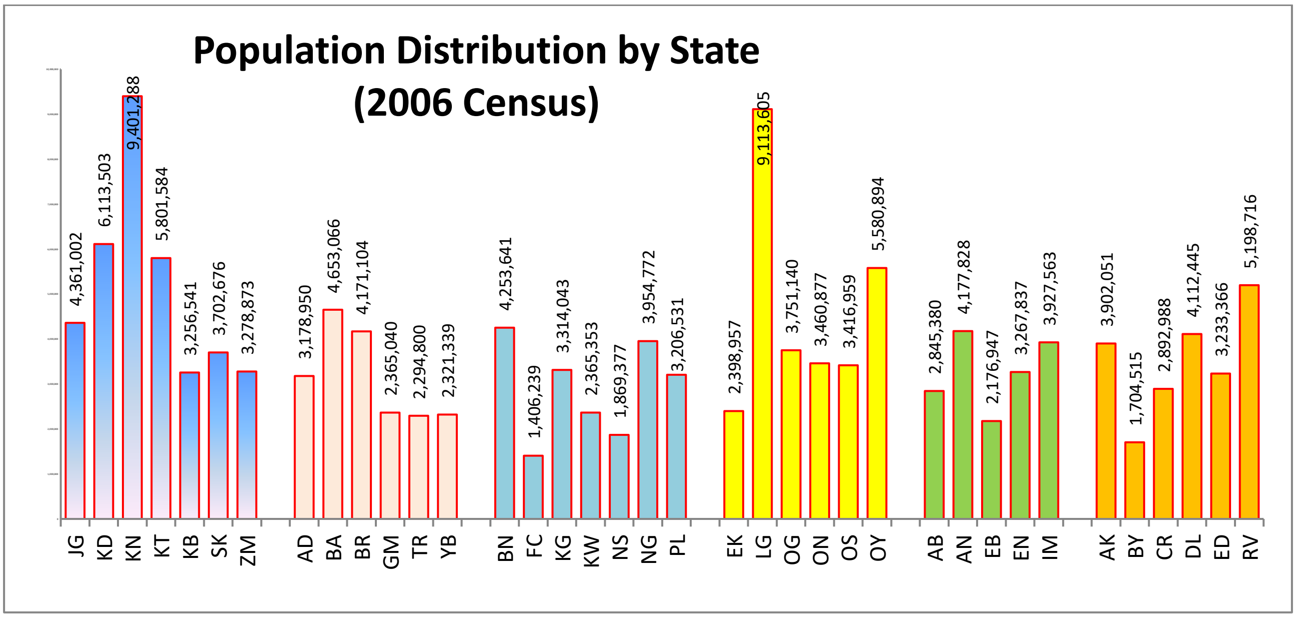
As stated above, studies are often carried out using a mix of quantitative and qualitative methods, depending on the nature of the phenomena under investigation. Mohammad (2014) confirms that research questions and problems play a significant role in influencing the research methods chosen for a study. Quantitative research involves scrutinizing the suitability, accuracy and completeness of the data collected, and analyzing them to address the research questions and problems under consideration (Sekaran and Bougie, 2016). Quantitative research is based on reasoning that uses numbers to arrive at conclusions about the questions and problems studied (Waters, 2011). Therefore, numerical data can be interpreted using quantitative methods to arrive at specific conclusions about the phenomena under investigation (Walliman, 2016). On the other hand, the qualitative method establishes knowledge with regard to a world mediated by human experience (Higgs, Horsfall and Grace Eds, 2009; Saunders et al., 2016). However, qualitative research places little emphasis on numbers; rather than quantify, it studies the beliefs, perceptions, feelings and opinions of people rather than abstract phenomena (Walliman, 2016). Therefore, it uses people's perceptions, views, and opinions to interpret the world through a naturalistic or interpretive approach (Creswell, 2017). Moreover, a mixed method uses quantitative and qualitative approaches in the same study to collect and analyze data (Saunders et al., 2016), therefore, the most appropriate research philosophy and method to answer the research questions should apply together.

Given the nature of the research questions, this study adopts a pragmatic paradigm and applies mixed research methods. Hoshmand (2003) claimed that pragmatism leads researchers to identify the best possible way to mixed research approaches. "*Philosophically, mixed research makes use of the pragmatic method and system of philosophy. Its logic of inquiry includes the use of abductive (or discovery of patterns), deductive (testing of theories and hypotheses), and inductive, uncovering and relying on the best of a set of explanations* *for understanding one's results*" (Johnson and Onwuegbuzie, 2004 p 17). Therefore, pragmatism offers a foundation for mixed methods research (Johnson and Christensen, 2011; Schafft and Biddle Catharine, 2015; Saunders et al., 2016). Accordingly, this study applies mixed research methods sequentially, combining both qualitative and quantitative results to provide robust, reliable and clear findings. This substantiates the views of Sunders et al. (2012) who assert that mixed research methods allow for an in-depth understanding of the phenomena under investigation and provide clear findings.

5.5.1.1 Population and sample of the Study

A population can refer to an entire group of things, events or people under investigation (Kumar et al., 2013). However, sampling refers to the procedure of choosing an adequate number of components in a given population, to enable a sample study and the evaluation of the sample features to be generalized (Kumar, Talib and Ramayah, 2013). This can be categorised into non-probability and probability sampling techniques. Under each, there exist several other sub-techniques the selection of which depends on the degree of desired generalization, time availability and the other resources necessary to the study. Accordingly, the target population for this study comprises adults in Nigeria. Below is the entire Nigerian population by states, as obtained from the National Population Commission of Nigeria.

Figure: 5.1: Nigeria's Population



(source: NPC, 2006)

5.5.1.2 Sampling Technique and Sample Size

This study uses a probability-sampling technique to select the sample population. This is because data collection involves various constraints, such as size of population, cost and time, which can undermine the research process (Bature, 2014). However, scholars, including Hair *et al.*, (2013), argue that the findings obtained from probability sampling are considered reliable, and can therefore be generalized. Probability sampling techniques reduce the inherent bias of researchers, as each component of the sample population stands an equal chance of being selected (Sekaran, 2005). Accordingly, stratified and simple random sampling has been applied to select the study sample, as proposed by Kothari (2004). Stratified sampling involves the division of the sample population into various subgroups, each with similar traits, to enable a fair representation of all elements of the sample population (Bature, 2014). Therefore, in accordance with the sampling techniques adopted, the study population - Kano state - is divided into 'strata' and the target group is identified and randomly selected. Kano state has 44 local government areas, and following the adopted sampling technique, this study chooses Kano central, which has 15 local Government areas. It is divided into strata, from which the six most populated local government areas have been chosen. This is because the six selected local Government areas constituted about half of the Kano population and form the heart of Kano state, where most commercial activities take place, and various traditions, culture and ethnic groups exist. Figure 5.2 below shows the selection of the sample population using the sampling technique adopted in this study.

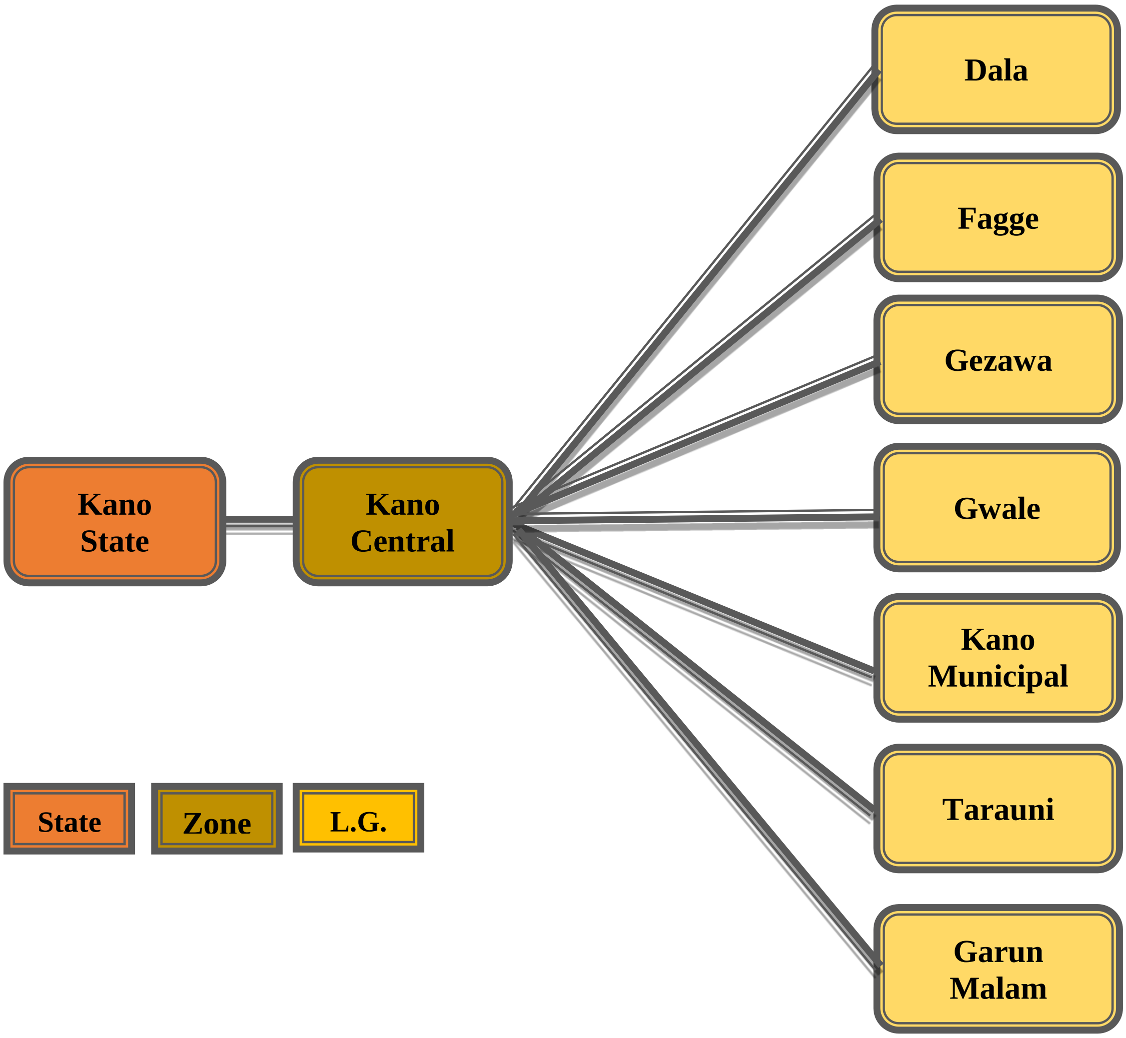
On the other hand, the interview aspect of this study uses purposive sampling to reach out to respondents. To obtain valid findings in qualitative research, it is neither possible nor necessary to collect data from everyone in a community. However, a well-selected purposive sample should ensure that the data gathered is valid and reliable. Purposeful sampling is used in qualitative research for the identification and selection of information-rich cases related to the phenomenon of interest. It is a focused sampling technique which allows the researcher to select a knowledgeable and experienced sample in order to understand phenomena under investigation (Creswell, 2012;. Kumar, Talib and Ramayah, 2013). The choice of purposive sampling for the interviews relates to the distinctive nature of Islamic finance whereby supply-side information is most usefully obtained from operators and suppliers.

Determining a sample size is vital for any kind of study. The sample size is largely based on the level of confidence, precision and variability in the data. This study follows Krejcie & Morgan (1970) who argue that a sample size of 384 is sufficient for a population of approximately one million. Therefore, a sample of 420 adults is selected from the population of 9,401,288 million people in Kano. This is the largest populated state in Nigeria.

5.5.1.3 Questionnaire Sample Population

Following the stratified and simple random sampling approach discussed above, the researcher first selected Kano state. However, the adult population in northern Nigeria is predominantly financially excluded from Nigerian financial services; more than 70% of the adult population living in Muslim dominated Northern Nigeria are financially excluded (EFInA, 2016). Reports suggest that Muslims are less likely to have access to formal financial services, and there is limited use of Islamic financial products among this group, despite high preferences (Yorulmaz, 2016; Demirguc-Kunt, Klapper and Randall, 2013), This might be explained by religious reasons, poverty and infrastructural related issues (Naceur *et al.*, 2015). Accordingly, this study considers the Muslim dominated northern part of the country as an appropriate target population to gather reliable and valid information to answer this study's research questions. However, due to constraints on time and resources, this study chooses Kano state in Nigeria as an area for distributing questionnaires to the adult population to gather information relevant to the study.

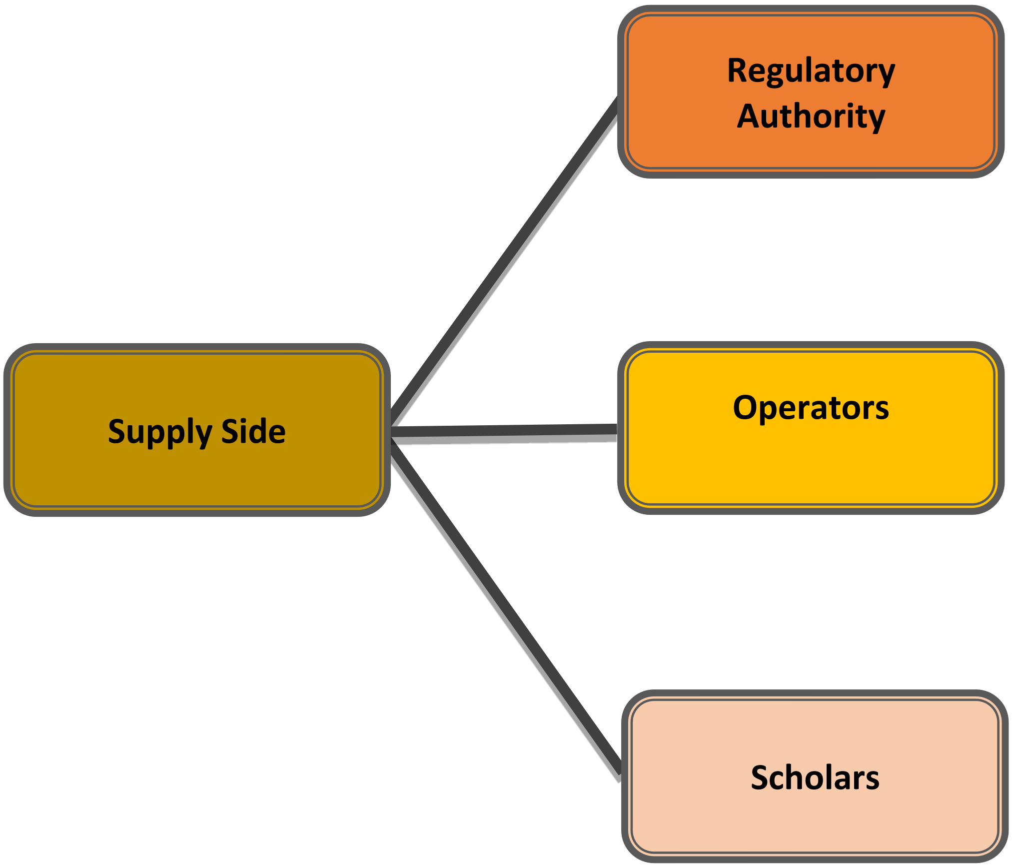
Figure 5.2: Questionnaire Sample Population



5.5.1.4 Interview Sample Population

This study identified three important segments with valuable information about the development, regulation and operation of Islamic financial systems and financial inclusion in Nigeria. Therefore, primary data were generated from these groups using semi-structured interviews. These groups include: (1) Financial regulatory bodies, with the responsibility for regulating all financial institutions in the country including Islamic financial institutions; (2) Islamic finance operators (in this case Jaiz bank was chosen as it is Nigeria's first and only fully pledged Islamic bank, with a large portion of Islamic finance assets); (3) The third group comprises Islamic finance scholars and academicians, who have the theoretical background and insight into national trends in Islamic finance. However, from all these groups, the top tier of management has been identified and interviewed to build an informed view on the research question under consideration.

Figure 5.3: Interviewee Groups



5.5.1.5 Questionnaire Distribution

The survey questionnaire was formulated with the aim of providing answers to the research questions. Questionnaires were distributed to the adult population in Kano to gather data on demographic profiles, awareness, preferences, their use of IFPs and the factors influencing use to measure their access to financial services, especially the prevailing IFPs. However, the choice for the adult population is influenced by the extent of the financial exclusion rate. The choice of Northern Nigeria, and Kano state in particular, as a sample population is motivated by the fact that financial exclusion is higher in this region. Notably, the 2006 census indicates that Kano state is the highest populated state in Nigeria (NPC, 2006).

However, one principal reason for choosing the specified groups (Regulatory Authority, service providers and scholars) as a sample population for interview is: their involvement in Islamic finance product development, the provision of services, regulation, and the supervision and research they conduct in the realm of Islamic finance. Thus, the focus is on accurate and reliable information about the recent development of Islamic finance in Nigeria and its impact on enhancing financial inclusion in Nigeria. Against this backdrop, there is general consensus in the literature that sample size is an important integral part of any study in determining the generalizability and acceptability of any research findings.

5.5.1.6 Interviews Procedure

The interview process commenced by completing ethical forms, and approval was granted by the University as stipulated by the University's guideline for the conduct of research. Accordingly, the principles of the approved ethical form were practiced throughout the interview process. The participants were informed as to the purpose of the research and strict confidentiality regarding their identity was affirmed. Moreover, permission was sought from participants to audio-record interview proceedings; some accepted, while others rejected the recordings. Thus, written records were taken with the participants who rejected the recording process. The participants were interviewed at their workplaces, by using a voice recorder and taking notes on some vital points using pen and paper.

The research interviews were designed to collect supply side information from financial regulators, operators and scholars with the aim of assessing their level of compliance to Shariah principles. From the operator's perspective, information on their products and services has been collected. On the other hand, information collected from government regulatory authorities mandated to formulate policies and regulations for the financial system provided important insights into legal frameworks for the smooth operation of Islamic financial systems and to gauge the impact on financial inclusion of the introduction of Islamic financial systems. Scholars express their perception on how both operators and regulators adhere to *Shariah* principles, whether the introduction of Islamic finance influences access to financial services, and to make recommendations for a future road map if appropriate. The main point in using data from both the supply and demand sides is necessitated by the argument from the literature that using only demand or supply provides useful information on the level of financial inclusion, but could not offer a comprehensive insight about financial inclusion (Cámara and Tuesta, 2014). Studies such as that by Asli Demirguc-Kunt and Klapper (2013) use individual level demand side data, whilst others, such as those by Sarma, (2008), Chakravarty and Pal (2010), and Sarma and Pais (2011) focus on supply side data to measure inclusiveness in the financial system. This study uses both interview and questionnaire to attain a reliable and more holistic outcome.

5.5.1.7 Pilot Testing

Jonker and Pennink (2010) state that, to avoid ambiguity and bias when developing effective questionnaires and semi-structured interviews as research instruments, a thorough design and testing procedure must be undertaken. Therefore, to develop effective data collection tools (questionnaire and semi-structured interviews), direct and simple statements are provided. These ensure clarity and the ease of response, and therefore increase the likelihood of engagement by respondents.

5.5.1.8 Questionnaire and Interview Piloting

Pilot testing was carried out in Nigeria and the United Kingdom. The piloting of the questionnaire in the United Kingdom was conducted to ascertain the viability of the instrument. Three questionnaires were distributed to Nigerian students living in Manchester, mostly research students from the University of Manchester and Salford University. These students have experience in questionnaire construction and could be relied upon to answer the research questions and to comment on the structure of the instrument. In Nigeria, adults living in the sampled state were targeted to pilot the questionnaire and ten were distributed; all of these were completed and returned.

Similarly, two respondents were selected and interviewed from each sector; two were from the regulatory authorities (namely, the Central Bank of Nigeria and the National Insurance Commission), two were from *Jaiz* Bank, and two were scholars. All sectors were selected based on certain criteria and the respondents from each sector were selected based on the depth of their experience. For instance, the Central Bank of Nigeria is the Apex Bank in Nigeria and mandated to regulate all the banking sector in the Nigeria, including Islamic financial institutions and the International Institute of Islamic Banking and Finance (IIIBF), which is the only Islamic banking and finance institute in Nigeria that offers Islamic banking and finance courses (such as MSc and PhD programs). Moreover, *Jaiz* Bank is the maiden and only fully pledged Islamic bank in Nigeria. Accordingly, all respondents were selected based on their expertise and experience in the study area. For instance, in the Central Bank of Nigeria, respondents were selected from the financial inclusion secretariat and the Islamic finance unit of the bank. Similarly, the scholars from the IIIBF are supervising both MSc and PhD students in the field of Islamic finance. Also, *Jaiz* Bank top management were selected for the interview. Therefore, the questionnaires were returned, and the interview was conducted successfully. However, constructive comments and observations were identified and noted accordingly.

5.5.1.9 Sources of Secondary Data

The study uses secondary data from the World Bank Global Financial Index (Findex), Enhancing Financial Innovation and Acces (Efina) and Jaiz Bank Nigeria Plc. The data generated from these sources were used for various analysis, which aligned with the study objectives. The sources of the data are explained below.

5.5.1.10 Global Financial index (Global Findex)

The analysis was conducted using the World Bank Global Findex (2017). The data contains a study of 143 countries, including Nigeria, with a sample of almost 150,000 participants across the globe. Around 1000 samples were selected from Nigeria, which included the entire civilian, non-institutionalized population aged 15 and above (Zins and Weill, 2016). This is enough to analyse and determine the level of financial inclusion. The data provides detailed financial indicators that can enable us to identify: the determinants of financial inclusion, the extent of account penetration, the use of financial services and the purposes and motivations for doing so, and the alternatives to formal finance among others. In addition, it provides micro-level information that includes gender, age, income and education (Zins and Weill, 2016). The use of this database was motivated by its perceived reliability by several financial inclusion researchers, such as Zins and Weill (2016); Cámara and Tuesta (2014); Fungáčová and Weill (2014); Han and Melecky (2013; Sarma (2012)).

5.5.1.11 Enhancing Financial Innovation and Access (EFInA)

Enhancing Financial Innovation and Access (EFInA) is an aim of the Bill and Melina Gates Foundation and the United Kingdom Department for International Development (DFID). EFInA is an advocate for financial inclusion, through its state of the earth survey on various financial inclusion indicators to help financial sectors identify causes of financial exclusion and monitor policy progress. EFInA is involved in periodic financial inclusion surveys in Nigeria and provides the annual financial inclusion report on Nigeria (CBN, 2018).

5.5.1.12 *Jaiz* Bank Nigeria

Jaiz Bank is the maiden and only fully operational pledged Islamic Bank. It was established in 2012 in Nigeria. *Jaiz* Bank demonstrated the highest penetration in the Nigerian financial sector and thus dominated a prominent segment of Nigeria's Islamic financial assets (Akintal et al., 2018).

5.5.2 Research Methods for Data Analysis

This study uses statistical analysis to analyze and interpret both primary and secondary data. Sekaran (2005) asserts that data are analyzed in two statistical ways - inferential and descriptive. Accordingly, this study uses inferential statistics to analyze the data collected from the questionnaire, and the secondary sources from Global Findex. Accordingly, various statistical tools are used to test various aspects of the data, such as Cronbach Alpha for reliability, frequency, mean score and the T-test. This study uses logistic regression to establish the model. Given that the dependent and independent variables have no assumed linear relation, continuous or categorical independent variables can be applied to the model, although the dependent variables must be binary or dichotomous (Hosmer and Lemeshow, 2000). The information generated from the interview is transcribed, analyzed and compared to the information from both the supply and demand side.

5.5.2.1 Variables and Model Specification for Examining Financial Inclusion and its Determinants

The main aim of this research is to evaluate the impact of IFPs in promoting financial inclusion. Thus, various empirical analyses were carried out to achieve the research objectives. These include, the determinants of financial inclusion, the influence of individual perceptions on using Islamic finance products, and the impact of Islamic finance in promoting financial inclusion in Nigeria.

Therefore, it is pertinent to identify the determinants of financial inclusion in order to gauge the demographic related factors that influence inclusiveness in the financial system. In this regard, this study identifies the determinants of financial inclusion in Nigeria by analyzing the individuals' characteristics associated with financial inclusion. These include; income, education, age, location, marital status and gender. Various studies (Asli Demirguc-Kunt and Klapper, 2013; Fungáčová and Weill, 2014; Allen *et al.*, 2016; Zins and Weill, 2016) use these variables to investigate the determinants of financial inclusion. Therefore, this study is in line with that conducted by Zins and Weill, (2016).

5.5.2.2 Financial Inclusion Indicators as Dependent Variables for examining determinants of Financial Inclusion

The dependent variable ('financial inclusion') is binary and takes the value of 1 if that particular individual has a formal account, formal credit or has had formal savings in the last twelve months and 0 otherwise. Therefore, a model suitable for limited dependent variables is required, such as a logit regression.

i. Formal Account: this denotes an individual has an account either at a financial institution or through a mobile money provider.
ii. Formal Saving: this denotes the individual has saved using an account at a financial institution in the past 12 months
iii. Formal Credit: refers to the fact that the individual has borrowed from a financial institution in the past 12 months.

5.5.2.3 Individual Attributes as Independent Variables

To predict whether an individual is 'Financially Included' (1) or 'Excluded' (0) in Nigeria, this study sets out the following demographic characteristics (gender, age and education and income levels) as independent (explanatory) variables. The goal is to identify the determinants of financial inclusion by quantifying the relationship between individual characteristics and the probability of being financially included. These demographic characteristics are useful predictors of the probability of financial inclusion. Individuals differ in age, educational attainment, income and other observable characteristics. Associating these demographics with financial inclusion is also vital for the identification of determinants of financial inclusion; thus, appropriate policy responses and the planning of financial inclusion programs could be attained.

Therefore, the independent variables are specified as: gender, which is a binary (dummy) variable, and is equal to one if the individual is a male and zero if female. Age is a continuous variable represented by the number of years. To consider income, four dummy variables were employed (second 20%, third 20%, fourth 20% and fifth (richest) 20%). The first poorest quintile is the omitted dummy variable. The poorest 20% is a dummy variable equal to one if income is in the first income quintile, zero otherwise, and so on for the other dummies. Concerning education, we use two dummy variables, namely secondary and tertiary education. Secondary education is equal to one if the individual has completed secondary education, and zero otherwise. Tertiary education is equal to one if the individual has completed tertiary education or more, and zero otherwise. The omitted dummy variable is primary school or less. However, the study uses the data generated from the questionnaire to examine the influence of individual attributes on the use of Islamic finance in Nigeria.

Thus, the model is presented as;

IF=*f*(Gender, Age, Education and Monthly Income). Symbolically, this is represented as:

$$\boldsymbol{IF_i} = \beta_0 + \alpha_1\, AGE + \alpha_2 EDUC + \alpha_3 INC + \alpha_4\, GEN + \mu_i \ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (1)$$

Where IF_i is financial inclusion (which is the use of Islamic financial products).

The variables employed for the analysis are explained below:

In this case, the use of Islamic finance is denoted by ***IF_i*****-** This represents financial inclusion, which is a binary variable where individuals were given 1 if they are using IFPs and 0 if they are not.

The model seeks to investigate the influence of age, gender, monthly income and education on the use of Islamic finance products by respondents.

Age- Is a measure of the extent of the influence of increased adult age on financial services.

Gender- Is a measure of the extent of the influence of being male or female on access to financial services.

Income- Is a measure of the extent of the influence of income level on access to financial services.

Education- Is a measure of the extent of the influence of educational background on access to financial services.

Where *F* represents one of the financial inclusion indicators (holding account, borrowing and saving in formal financial institutions) of access to finance by individuals i. εi is a normally distributed error term with zero mean and variance equal to 1. Previous studies use three main indicators of financial inclusion vis-à-vis a *formal account, formal savings and formal borrowing.* A *formal account* denotes access to accounts by individuals in financial institutions or other providers, such as mobile money. "*Formal saving refers to the fact that the individual saved using an account at a financial institution in the past 12 months. Formal credit refers to the fact that the individual borrowed from a financial institution in the past 12 months. All these variables are dummies equal to 1 if the person responded "yes" and 0 else wise"* (Zins and Weill, 2016).

5.5.2.4 Examining the Impact of Islamic Finance on Financial Inclusion

This study attempted to examine the impact of Islamic finance on Nigeria's financial inclusion. Hence, Islamic bank deposits were considered as Islamic finance proxies to examine the effect.

Following the approach of Ghysels, Santa-Clara, and Valkanov, (2004) and Tay (2006), the study augments an annual AR(1) model for financial inclusion with monthly total deposits in

Islamic banking using a nonparametric Mixed Data Sampling (MIDAS) setting. The following conventional predictive model for the Nigerian financial inclusion rate is specified:

$$Finc = \beta_0 + \beta_1 Deposit + \varepsilon_t$$

Where Finc is the financial inclusion rate at a given period t and Islamic banking deposits is used as a proxy for Islamic banking, while ε is the error term. Hence, the number financially included is a function of a constant, a lagged value of financial inclusion and the deposits of Islamic banking.

Specifically, the model under consideration is:

$$y_t = X_t^{'}\beta + f(\{X_{t/S}^{H}\}, \theta\lambda) + \varepsilon_t$$

Where

- y_t is the dependent variable and represents the number of Nigerians financially included sampled at a low frequency and date.
- $X_t^{'}$ is the lagged dependent variable sampled at the same low frequency as the dependent variable
- $\{X_{t/S}^{H}\}$ is the Islamic banking deposit (proxy of Islamic finance) sampled at a higher frequency value.
- f Is a function describing the effect of the higher frequency data in the lower frequency regression.
- $\beta, \theta \ and\ \lambda$ are vectors of parameters to be estimated

A priori theoretical arguments allow us to specify the anticipated signs of some coefficients, for example:

$\beta_1 > 0$	Lagged value of financial inclusion is theoretically expected to increase the financial inclusion rate.
$\beta_2 > 0$	Increased Islamic banking deposits is theoretically expected to increase the financial inclusion rate.

5.5.2.5 Islamic Banking as a Proxy to Islamic finance

The literature suggests that Islamic finance has witnessed significant recognition and growth in recent years, especially in the banking sector (Seman, 2016). Islamic banking, which was first established in 1963 in Egypt, has now penetrated over 50 countries around the World (Chong & Liu, 2009). Islamic finance is widely accepted as the rapidly growing financial sector has an asset worth more than two trillion US dollars (Azmat et al., 2015). Islamic banking thereby dominates a significant portion of the Islamic finance assets, accounting for 81% of total Islamic finance assets (Nalan ISIK, 2018). Hence, various studies have adopted Islamic banking as a proxy to Islamic finance when investigating issues related Islamic finance. For instance, Furqani & Mulyany (2009) uses total Islamic bank financing to explain economic growth in Malaysia. Seman (2016) adopted Islamic banking as a proxy for Islamic finance to examine the role of a financial system on financial inclusion. Similarly, Lawal & Imam (2016) used Islamic banking finance to the private sector as a proxy for Islamic finance to explain its contribution on economic growth in Nigeria. Thus, this study adopts Islamic banking deposits to examine the impact of Islamic finance on promoting financial inclusion in Nigeria. Accordingly, *Jaiz* Bank, as the maiden and only operational Islamic bank in Nigeria, is considered and their total deposits used for the investigation.

5.5.2.6 Procedure for Evaluating the Perceptions of Islamic Finance Regulators, Operators and Experts on Compliance with Islamic Finance Principles

The interview conducted aimed to evaluate the perceptions of the regulators, operators and experts regarding compliance with Islamic finance principles. Hence, the study adopted a data analysis procedure to summarize and tabulate the data for easy understanding and analysis (Waziri, 2016; Bodgen and Bilken, 1982) so that it is easily codified, and conclusions can be drawn (Saunders et al., 2012). To hide the identity of participants and enable easy classification, codes were assigned to all participants and the questions were set based on their duties, expertise and relevance to the Islamic financial system in Nigeria. In line with Saunders et al., (2012), Bature (2014), and Waziri (2016) the interview data collected for this study are summarized and codified, and relevant ideas are sorted to arrive at a final version of the information. Following Waziri (2016) and Bature (2014), this study manually transcribed the recorded and written interview data, and transcripts were made.

Table 5.1 Summary of the Interview Participants

Participants Code	Position	Organization	Types of Organization
R1	Professor	International Institute of Islamic Banking and Finance	Expert
R2	Professor	International Institute of Islamic Banking and Finance	Expert
R3	Professor	International Institute of Islamic Banking and Finance	Expert
R4	Professor	International Institute of Islamic Banking and Finance	Expert
R5	Managerial	Central Bank of Nigeria	Regulator
R6	Managerial	Central Bank of Nigeria	Regulator
R7	Managerial	Central Bank of Nigeria	Regulator
R8	Managerial	Central Bank of Nigeria	Regulator
R9	Managerial	*Jaiz* Bank	Operator
R10	Managerial	*Jaiz* Bank	Operator
R11	Managerial	*Jaiz* Bank	Operator
R12	Managerial	*Jaiz* Bank	Operator

Source: (Author)

Table 6.4 describes the status/caliber and the organizations of the participants who were drawn from various sectors of the supply side, namely the financial regulatory authorities, Islamic financial institutions, and academia. As the researcher is keen to gather reliable information, participants hold top management posts within the regulatory bodies, namely the only fully pledged Islamic bank in the country (*Jaiz* Bank) and the first and only International Institute of Islamic Finance to offer PhD and Master's courses in Nigeria. Moreover, research participants each have a unique code to protect their identity and enhance respondent confidentially. Accordingly, themes are identified, and appropriate responses are gathered from the interview participants, which were further transcribed and presented according to the themes.

5.6 Research Methods Limitations

Traditionally research studies are associated with various limitations and challenges, and this study is no exception. Its major limitations arise from the data collection, time restraints, security and resources issues, all of which affected the researcher's data collection. Hence, the researcher chose the most populated and predominantly financially excluded state in Nigeria for the collection of data from the adult population. However, since Islamic finance is at an early stage in Nigeria, it has been difficult to gather comprehensive data regarding the use of Islamic finance. Hence, Islamic banking deposits have been used as a proxy for Islamic finance to investigate the impact of Islamic finance on financial inclusion.

5.7 Conclusion

This chapter presented the methods and methodology adopted in this study, as the role of methodology is pivotal in any research study. After scrutinizing various philosophical assumptions, a pragmatic paradigm has been adopted as most appropriate to this study. Accordingly, sequential mixed methods are also applied. The chapter presented the types of data, methods of data collection, population, sample size and the sample technique used. The pilot study conducted prior to the main data collection was also explained.

However, after taking into cognizance various parameters, statistical analysis techniques are employed, such as logistics regression, Cronbach Alpha, frequency and mean score and T-test.

Chapter Six

Preliminary Analysis and Findings on the Determinants of using Islamic Financial Products and the Influence of Individual Perceptions on the Use of Islamic Finance Products in Nigeria

Chapter 6

Preliminary Analysis and Findings on the Determinants of using Islamic Financial Products and the Influence of Individual Perceptions on the Use of the Products in Nigeria

6.1 Introduction

This chapter presents the preliminary analysis and findings of the questionnaire distributed in Nigeria. The response rate, reliability test and descriptive analysis of the respondents are presented in this chapter. The findings of the perception of the adult group regarding factors that influence using Islamic finance (IFPs) is presented. The study will present the further analysis on determinants of financial inclusion, adult perceptions to the use of Islamic finance products (IFPs) and the impact of Islamic finance products (IFPs) on financial inclusion in Nigeria in the next chapter of this study.

6.2 Response Rate of the Questionnaire

As presented in Table 6.1 a total of 420 questionnaires were administered to the sampled respondents drawn through stratified and simple random sampling. Out of the 420 questionnaires distributed, 400 questionnaires were successfully retrieved leaving (20) as unreturned, indicating a 95% response rate. This can be considered as acceptable for further analysis and discussion as suggested by Sekaran (2003), who claims that 30% response rate is acceptable. However, this response rate is within the expected range, as similar studies achieved similar response rates.

Table 6.1: Response rate of the Respondents

Questionnaires sent out	Questionnaires returned	Questionnaires used for analysis	Response rate
420	400	400	95%

Source: (Fieldwork 2018).

6.3 Reliability Measurement

Table 6.2 presented the internal consistency of the items measured through Cronbach‘s alpha reliability coefficient. The coefficient is the most widely used reliability measure to assess the consistency of a scale as indicated by Adeola-Omole (2013). The Cronbach‘s Alpha coefficient value for the scale was found to be 0. 95 as shown in Table 6.2 which is above the recommended value of 0.7. This indicates a high level of internal consistency in the items as suggested by Pikkarainen *et al. (*2004). Therefore, the value is acceptable, confirming that the scales are reliable enough to be used for further analysis.

Table 6.2: Cronbach’s Alpha Reliability Coefficient for the Variables

Cronbach's Alpha	N of Items
0.952	57

6.4 Demographics of Respondent (Adult Population)

After the survey, descriptive statistics were employed to explore the demographics of the participants. As shown in Table 6.3, the gender distribution shows that the majority of the respondents 73.5% (n=294) are male and only 26.5% (n=106) are female. The response rate of the female has significantly increased compared to study conducted by Zauro, (2017) on examining the attitude of the adult group in accepting Islamic finance products (IFPs) in the area, whose finding suggested only (11%) of the respondents are female while the male constituted the remaining (89%). The large disparity between the number of male and female respondents can be attributed to the notions and traditions of the Hausa society where the questionnaires was administered and supported Al-Amin (2018) who assert that women in Northern Nigeria are primarily responsible for the home and the family affairs.

An analysis of the demographic characteristics shows that the respondents fell into multiple age ranges. The age distribution reveals that about 79.5% (n = 318) of the respondents were between the ages of 20 to 45 years. About 15.8% (n=63) were between 46 to 60 years and 4.8% (n=19) were above the age of 60. This suggests that, the bulk of the respondents were within the active and productive age bracket.

Table 6.3: Demographic Information of the Participants

SN	Demographic Profile	Level	Frequency	%
1	**Gender**	*Male*	*294*	*73.5*
		Female	*106*	*26.5*
2	**Age**	*20-45*	*318*	*79.5*
		46-60	*63*	*15.8*
		Above 60	*19*	*4.8*
3	**Ethnicity**	*Igbo*	*8*	*2.0*
		Yoruba	*22*	*5.5*
		Hausa	*354*	*88.5*
		Others	*15*	*3.8*
4	**Marital Status**	*Single*	*233*	*58.3*
		Married	*153*	*38.3*
		Widowed	*7*	*1.8*
		Divorced	*7*	*1.8*
5	**Employment status**	*Employed*	*177*	*44.3*
		Self Employed	*155*	*38.8*
		Unemployed	*68*	*17.0*
6	**Education**	*Tertiary Education*	*285*	*71.3*
		Secondary	*84*	*21.0*
		Primary	*7*	*1.8*
		None	*24*	*6.0*
7	**Monthly Income**	*Below N48,000*	*247*	*61.8*
		N48,000 - N96,000	*73*	*19.2*
		Above N96,000	*61*	*16.0*

Source: (Fieldwork 2018)

The respondents were also diverse based on ethnicity and marital status. The findings indicate that 354 respondents representing 88.5% were Hausa Fulani; 22 representing 5.5% were Yoruba; 8 representing 2% were Igbo, while others accounted for 15 representing 3.8%. However, one respondent chose not to answer this question. The Hausa domination of the sample can be explained by the location where the survey was carried out. Furthermore, contents of table 6.8 also show the distribution of respondents according to marital status. The findings reveal that the majority of the respondents, 233, were single, representing 58.3%; 153 representing 38.3% were married; Widowed accounted for 7 representing 1.8% while divorced accounted for 1.8%.

However, the distribution of the respondents according to their employment status reveals that the majority of the respondents 177 representing 44.3% were employed; 155 representing 38.8% were self-employed while 68 respondents, representing 17% were unemployed. This finding supports the result obtained by Zauro, (2017) and Efina (2017) in the study area, which indicated that most of the respondents are male and at the productive age between 15 to 45 years old.

On the level of education of the respondents, the findings show that the majority of the respondents, 285, had been at tertiary institutions representing 71.3%; 84 representing 21%, were secondary school leavers; 7 representing 1.8% possess Primary leaving certificate, while 24 representing 6% had no conventional education. The results demonstrate that the bulk of the respondents were educated and are adequately knowledgeable in order to provide data on financial inclusion as related by EFInA (2017).

Finally, the Monthly Income distribution of the respondents reveals that they fell into multiple income groups. Their income ranged from under N48, 000 to over N96, 000. The majority of the respondents 247 representing 61.8% had income levels of less than N48, 000; 73 respondents representing 19.2% had income levels between N48, 000 to N96,000; 61 representing 15.3% had income levels above N96,000 while 19 respondents representing 4.8% chose not to answer this question.

6.5 Use of Islamic Finance in Nigeria

This study adopted six indicators of financial inclusion (currently using Islamic finance products, business financing, *sukuk*, mortgage, insurance and mobile banking) in the Islamic finance perspective to investigate the use of Islamic finance products (IFPs) by adults in Nigeria. The adoption of these variables as indicators is informed by the proposition from the literature that access to savings, credit facilities, bank accounts, credit/debit cards and insurance services are considered as indicators of financial inclusion (see, for instance Zins % Weil, 2016).

As presented in Table 6.4, out of the four hundred respondents that completed the questionnaire, only 175 representing 43.8% (more than one third) are currently using Islamic finance products. This implies that the use of Islamic finance products (IFPs) in Nigeria is far greater than the UK which is only 26.6% of adult Muslim population as reported by Warsame (2009) and 32% in Sub Saharan Africa as reported by Demirguc-Kunt et al., (2013). This could be attributed to the large population of Muslims in Nigeria. A look at Table 6.4 reveals that only 173 survey respondents, representing 40.8%, were financing their business through Islamic financial products. In addition, only a little over one fourth (30%) have employed Islamic financial products for their mortgages. Respondents that have invested in *Sukuk* and use *Takaful* as their insurance accounted for 30% and 30.8% of the survey respondents respectively. Furthermore about 31% of the survey respondents employ only Islamic finance mobile banking. Therefore, the core principle of *maqasid* Shariah that aims to attain inclusive socio-economic development and thus, financial inclusion is attainable.

As indicated in table 6.4, many individuals in the study area often used Islamic financing instruments to finance their businesses. This supported Mohieldin et al. (2012) who assert that Islamic finance is a viable source of inclusive financial systems. Another important instrument is the *Sukuk* which attracted 132 respondents representing 33%. The high participation in *Sukuk* investment can be associated with recent government efforts to enhance awareness of the significance of *Sukuk* investment in promoting infrastructural development that led to oversubscription of the maiden *Sukuk* issued by the Federal Government of Nigeria. However, the result suggested that Islamic finance tends to resolve the widely discussed mortgage financing challenge in Nigeria.

Table 6.4: Level of use of Islamic Finance

Categories		Frequency	Percent
I am currently using IFPs	No	225	56.2
	Yes	175	43.8
I used IFPS for financing my business	No	237	59.3
	Yes	163	40.8
I used IFPS for my mortgage	No	280	70.0
	Yes	120	30.0
I Invested in *Sukuk*	No	268	67.0
	Yes	132	33.0
I used *Takaful* as my insurance services	No	277	69.2
	Yes	123	30.8
I used only Islamic finance mobile banking	No	268	67.0
	Yes	132	33.0

Source: (Fieldwork 2018)

In summary, the results on the table 6.4 above show that more than half (56.2%) of the respondents are currently not using Islamic Financial products. A further 59.3% have not used it for financing their business. More than two third of the respondents, (about 70%) have not employed Islamic financing products for their mortgage. Furthermore, about 67% of the sampled population have not invested in *Sukuk.* In addition, 69.3% do not use *Takaful* as their insurance service. Also, about 67% have never used Islamic finance mobile banking. Therefore, the results obtained by this study suggest that the nascent Islamic finance industry in Nigeria is slowly gaining acceptance and important to the Nigerian financial inclusion goal.

Based on the results, the nascent Islamic financial products as revealed by this study, it can be argued that Islamic finance in future could promote financial inclusion in Nigeria by introducing new products and services to the financial sector, bridging the gap created by voluntary exclusion based on religious reasons. This finding supports Mohieldin (2012) who asserts that Islamic finance is a viable way of promoting financial inclusion.

6.6 Analysis of Respondents' Perceptions Relating to Islamic Finance Products

This section used the responses obtained from the questionnaires retrieved from the 400 respondents as stated at the beginning of this chapter. The section investigates the respondent's perceptions concerning the use of Islamic finance products, their level of awareness, accessibility, their attitudes and preferences toward the use of these products in Nigeria. Respondents were asked to "agree" or "disagree" with the perceived benefits and perceived government support. A rating scale format is then used, with five options per item ranging from "strongly disagree" to "strongly agree".

6.6.1 Access to Islamic Finance Products by the Adults

As presented in Table 6.5 the analysis of respondents' perception of the accessibility of Islamic finance products (IFPs) shows that about 46% of the respondents, with a mean of 3.2 (SD =1.29) agree that they have access to Islamic Financial Products. While the analysis further revealed that the majority (54.8%) of respondents with a mean of 3.43 (SD = 1.22) were of the view that Islamic finance product (IFPs) branches are close to commercial places and residences, which provides accessibility. Another 62.85% with a mean of 3.77 (SD = 1.10) agreed that Islamic banks have good ATM networks. Furthermore, 52.8% with mean of 3.46 (SD = 1.17) agree that Islamic finance products (IFPs) have a low rate of return and other charges. While almost half of respondents (44.8%) with a mean of 3.3 (SD =1.23) agree that Islamic finance products (IFPs) have uncomplicated documentation requirements. Taking into consideration the findings of Sarma (2012) and Zulkhibri (2016) who assert that major factors influencing financial exclusion are the lack of nearby branches and ATM networks and a lack of documentation, a feature mostly cited by Muslim adults are being overcome by Islamic finance in the study area and thus, promote financial inclusion.

Table 6.5: Presents the perception of respondents on accessibility of Islamic financial products

Categories	Mean	S.D	1	2	3	4	5
I have access to IFPs	3.20	1.29	50 (12.5%)	72 (18%)	85 (21.3%)	116 (29%)	68 (17%)
IFPs branches are closest to commercial places and residences	3.43	1.22	33 (8.3%)	63 (15.8%)	70 (17.5%)	142 (35.5%)	77 (19.3%)
Islamic banks have good ATMs network	3.77	1.108	21 (5.3%)	26 (6.5%)	88 (22%)	138 (34.5%)	113 (28.3%)
IFPs has low rate of return and other charges	3.46	1.17	37 (9.3%)	33 (8.3%)	101 (25.3%)	141 (35.3%)	70 (17.5%)
IFPs has less documentation requirement	3.30	1.23	41 (10.3%)	55 (13.8%)	109 (27.3%)	107 (26.8%)	72 (18.0%)

Source: Field Survey, 2018
Notes: SD- Standard deviation
(1- Strongly disagree; 2- Disagree; 3- No effect; 4- Agree; 5- Strongly agree).

6.6.2 Intention to use Islamic Financial products

As presented in table 6.6 analysis of the perception of respondents shows that more than two thirds of the sample population (71.8%), with a mean of 3.86 (SD = 1.12), agree that they are planning to use Islamic finance products (IFPs) soon. Furthermore, the analysis of the perception of the respondents reveals that the majority (at 71.8.8%), with a mean of 3.9 (SD = 1.01), agree that they may use Islamic finance products (IFPs) for business in the coming years. About 57.8% of the sampled population with mean of 3.6 (SD =1.15) show intention to transfer all their financial transaction to Islamic finance products (IFPs). A majority of 73.8 with mean of 3.91 (SD = 1.07) were equally intending to use Islamic banking as their banking services. The result indicates that the respondent's intention to use Islamic finance is significantly positive. This can be related to the respondent's attitude and preferences toward the Islamic financial products and the results supported Demirguc-Kunt et al. (2013) who assert significant preference to use Islamic finance products among Muslim adults (IFPs). However, the result reflects a significant positive attitude among respondents as indicated in table 6.7. Therefore, this finding supports Amin et al. (2014) and Johan et al. (2017) who assert that the intention to use Islamic finance products (IFPs) is significantly related to attitudes toward IFPs and attitude is considered to have positive relationship with the intention to use Islamic finance products.

Table 6.6: Presents the perception of respondents on the intention to use Islamic financial products

Categories	**Mean**	**S.D**	**1**	**2**	**3**	**4**	**5**
I am planning to use IFP's soon	3.86	1.127	24 (6.0%)	28 (7.0%)	49 (12.3%)	165 (41.3%)	122 (30.5%)
I may use IFP's for business in the coming years	3.9	1.018	12 (3.0%)	30 (7.5%)	61 (15.3%)	169 (42.3%)	118 (29.5%)
I am Intending to transfer all my financial transactions to IFPS	3.6	1.157	24 (6.0%)	46 (11.5%)	83 (20.8%)	139 (34.8%)	92 (23.0%)
Intending to use Islamic banking as my banking services	3.91	1.072	21 (5.3%)	21 (5.3%)	54 (13.5%)	171 (42.8%)	124 (31.0%)

Source: Field Survey, 2018
Notes: SD- Standard deviation
(1- Strongly disagree; 2- Disagree; 3- No effect; 4- Agree; 5- Strongly agree)

6.6.3 Nigerians Attitudes toward Islamic Finance Products

The analysis of the perception of the respondents with regard to their attitude toward Islamic finance products as presented in Table 6.7 reveals that the majority (at 65.8%), with a mean of 3.7 (SD =1.22), agree that the Islamic finance products are the best financial service. About 67.5% with mean of 3.78 (SD = 1.06) agree that using Islamic finance products attracts various benefits. Another 67.5% with mean of 3.8 (SD = 1.01) of the sampled respondents also agree that Islamic banks provide the best financial service for their business. Majority (71.8%) with mean of 3.88 (SD =1.00) equally agree that Islamic finance products enhance entrepreneurship. A significant amount, about 66.8% with a mean of 3.8 (SD = 1.12) equally share the view that Islamic finance products enhance access to finance. This finding supports Zauro (2017) who revealed that the majority of Nigerians have a positive attitude toward their use. Therefore, positive attitude is often related with a high use of a product under consideration.

Table 6.7: Presents the attitude of respondents towards the use of Islamic financial products

Categories	Mean	S.D	1	2	3	4	5
IFP's are best financial service	3.7	1.222	38 9.5%	24 6.0%	70 17.5%	148 37.0%	115 28.8%
Using IFP's attracts various benefits	3.78	1.063	18 (4.5%)	31 (7.8%)	73 (18.3%)	168 (42.0%)	102 (25.5%)
Islamic bank provides important financial services for my business	3.8	1.014	16 (4.0%)	24 (6.0%)	79 (19.8%)	174 (43.5%)	96 (24.0%)
IFP's is good in enhancing entrepreneurship	3.88	1.002	16 (4.0%)	20 (5.0%)	63 (15.8%)	182 (45.5%)	105 (26.3%)
IFP's enhances access to finance	3.8	1.127	24 (6.0%)	26 (6.5%)	68 (17.0%)	152 (38.0%)	115 (28.8%)

Source: Field Survey, 2018
Notes: SD- Standard deviation
Strongly disagree; 2- Disagree; 3- No effect; 4- Agree; 5- Strongly agree).

6.6.4 Nigerian Adults Awareness Toward Islamic Finance Products

Table 6.8 presents the perception of the sampled respondents on their awareness of prevailing Islamic finance products. A majority of 61.3% with a mean of 3.59 (SD =1.22) are aware of the existence of Islamic finance products. More than half, about 56% with a mean of 3.53

(SD =1.14) are aware of Islamic finance products such as *Mudaraba*, *Musharaka* and *Murabaha*. This is also consistent with the perception of the Islamic finance scholars as generated through the interviews. Considering OECD/INFE (2013) that opined that financial product awareness is the first step toward access to financial services, and a possible step towards breaking financial exclusion dilemma. This finding has important implications for financial inclusion in Nigeria. This result is an indication that Nigeria is at the badge of curbing voluntary financial exclusion. Consistent with this view also, Demirguc-Kunt and Klapper (2013) observed that a lack of financial awareness is significantly influencing voluntary exclusion among individuals. Table 6.8 also presents that more than two thirds (about 68% with a mean of 3.84 (SD = 0.99) understand the importance of Islamic finance products in financing SMEs. Furthermore, about 61.8% agree that Islamic finance products have diverse windows for financing lower income class.

Table 6.8: presents the perception of respondents on their awareness about prevailing Islamic financial products

Categories	Mean	S.D	1	2	3	4	5
I am Aware of the existence of the IFP's	3.59	1.229	35 (8.8%)	43 (10.8%)	72 (18.0%)	143 (35.8%)	102 (25.5%)
I Know IFPS such as *Mudarabah*, *Musharaka* and *Murabaha*	3.53	1.146	23 (5.8%)	54 (13.5%)	89 (22.3%)	140 (35.0%)	84 (21.0%)
I understand IFP's are important for financing (SMEs)	3.84	0.997	15 (3.8%)	19 (4.8%)	82 (20.5%)	170 (42.5%)	102 (25.5%)
IFPS has diverse windows for financing for lower income class	3.67	1.081	21 (5.3%)	32 (8.0%)	91 (22.8%)	157 (39.3%)	90 (22.5%)

Source: Field Survey, 2018
Notes: SD- Standard deviation
(1- Strongly disagree; 2- Disagree; 3- No effect; 4- Agree; 5- Strongly agree)

6.6.5 Nigerian Adults Preference Toward Use of Islamic Finance Products

Most of the sampled respondents, about 57.8% with mean of 3.49 (SD =1.18) prefer Islamic finance products (IFPs) to conventional financing. This finding has important implications for financial inclusion efforts in the country. As Truong (2009) asserts, when individual's perception about the behavior under consideration is positive, then it hastens the intention to perform the behavior; if the attitude is negative it deters the intention. In contradiction, Table 6.9 shows that about 60% with a mean of 3.54 (SD = 1.09) also report that they don't mind using any of the financial services. This might be related to finding from the logistic regression model tested in this study (see table 7.11) which suggests that individuals with higher qualifications are indifferent to using Islamic finance products. A significant amount, about 66.6% with mean of 3.73 (SD= 1.31) agree that they used Islamic finance products just because of religious obligation. This finding also supports the responses of the majority of respondents who are committed to their religious obligation as indicated in table 6.10.

Table 6.9: Presents the perception of respondents on their preference about prevailing Islamic financial products

Categories	Mean	S.D	1	2	3	4	5
Prefer IFP's than conventional financing	3.49	1.185	36 (9.0%)	42 (10.5%)	82 (20.5%)	156 (39.0%)	75 (18.8%)
Don't mind using any of the financial services	3.54	1.090	23 (5.8%)	49 (12.3%)	77 (19.3%)	177 (44.3%)	65 (16.3%)
Used IFPS just because of religious obligation	3.73	1.319	38 (9.5%)	45 (11.3%)	43 (10.8%)	123 (30.8%)	143 (35.8%)

Source: Field Survey, 2018

Notes: SD- Standard deviation
(Strongly disagree; 2- Disagree; 3- No effect; 4- Agree; 5- Strongly agree)

6.6.6 Nigerian Adults Religiosity Toward Use Islamic Finance Products

The analysis of the perception of the respondents as presented in Table 6.10 which reveals that the majority (at 76.3%), with a mean of 4.10 (SD = 1.44), agree that they are curious about religion and their duties as Muslims. A majority of 73.1% with a mean of 4.00 (SD =1.07) agree they strictly adhered to their obligatory duties in line with *Shariah* principles. 65.3% with a mean of 3.83 (SD =1.09) agree that they always like to participate in supererogatory acts. Majority, about 79.8% with a mean of 4.23 (SD =1.05) also seek Islamic religious knowledge to understand religion better. This supported reports that the majority of global voluntary exclusion linked to religious reasons is driven from Sub Saharan African (Demirguc-Kunt et al., 2013).

Table 6.10: Presents the perception of respondents on their Religiosity about prevailing Islamic financial products

Categories	Mean	S.D	1	2	3	4	5
Am very curious about religion and my duties as a Muslim	4.10	1.144	23 (5.8%)	18 (4.5%)	45 (11.3%)	114 (28.5%)	191 (47.8%)
Strictly adhered to my obligatory duties, in line with *Shariah* principles	4.00	1.073	15 (3.8%)	25 (6.3%)	60 (15.0%)	137 (34.3%)	155 (38.8%)
Always like to participate in supererogatory acts	3.83	1.096	17 (4.3%)	31 (7.8%)	69 (17.3%)	143 (35.8%)	118 (29.5%)
Used to seek Islamic religion knowledge to understand the religion better	4.23	1.055	15 (3.8%)	19 (4.8%)	34 (8.5%)	114 (28.5%)	205 (51.3%)

Source: Field Survey, 2018

Notes: SD- Standard deviation

Strongly disagree; 2- Disagree; 3- No effect; 4- Agree; 5- Strongly agree)

6.6.7 Nigerian Adults Behavioral control toward the use of Islamic Finance Products

The analysis of the perception of the respondents as presented in Table 6.11 reveals that the majority (at 76.6%), with a mean of 4.04 (SD = 0.98), are able to use Islamic finance products (IFPs). A majority (78%) with a mean of 4.00 (SD = 0.92) agree that they have control over their use of Islamic finance products. In addition, about 73.3% with a mean of 3.99 (SD = 1.00) agree that they have the required knowledge, ability and resources to use IFPs. Individual control about the action under consideration significantly determines the performance of their action. Therefore, this result supports Ajzen (2002) who suggested that beliefs about control of behavior stimulates one's perception about the difficulty or ease of performing a given behavior. Adults in Nigeria are more likely to use Islamic finance products as they acquire the control to use them.

Table 6.11: Presents the perception of respondents on their Behavioural control about prevailing Islamic financial products

Categories	Mean	S.D	1	2	3	4	5
I believed that I can be able to use IF services	4.04	0.984	10 (2.5%)	24 (6.0%)	49 (12.3%)	165 (41.3%)	141 (35.3%)
Have control over myself to use IFP's	4.00	0.923	7 (1.8%)	28 (7.0%)	39 (9.8%)	198 (49.5%)	116 (29.0%)
I believe I have the required knowledge, ability and resources to use IFP's	3.99	1.006	11 (2.8%)	24 (6.0%)	59 (14.8%)	156 (39.0%)	137 (34.3%)

Source: Field Survey, 2018
Notes: SD- Standard deviation
Strongly disagree; 2- Disagree; 3- No effect; 4- Agree; 5- Strongly agree)

6.6.8 Perceived Economic Benefits of using Islamic Finance Products

The analysis of the perception of the respondents as presented in Table 6.12 reveals that a majority (55%), with a mean of 3.51 (SD = 1.11), agree that IFPs have less credit constraints than conventional financing. 61.6% with a mean of 3.71 (SD =1.04) agree that monthly repayments and service charges are lower in Islamic finance products (IFPs). 64% with a mean of 3.8 (SD =1.05) agree that the cost of loans is free in IFPs compared to conventional financing. 55% with a mean of 3.59 (SD = 1.14) agree that the profit maximization potential of Islamic finance products is higher than conventional products. This finding suggests that Islamic finance products reduce the credit constraints experienced in the conventional financial system where interest and collateral hinders access to credit by individuals. Therefore, Islamic finance products enhance financial inclusion by reducing the traditional cause of credit constraints such as collateral as highlighted by Chen (2016).

Table 6.12: Presents the perception of respondents on the Perceived Benefits about prevailing Islamic financial products

Categories	Mean	S.D	1	2	3	4	5
IFP's have less credit constraint than conventional financing	3.51	1.110	29 (7.3%)	33 (8.3%)	106 (26.5%)	150 (37.5%)	70 (17.5%)
Monthly repayment and service charges are less in IFP's	3.71	1.045	14 (3.5%)	36 (9.0%)	91 (22.8%)	153 (38.3%)	93 (23.3%)
Cost of loan are free in IFP's as against conventional financing	3.80	1.059	11 (2.8%)	38 (9.5%)	82 (20.5%)	141 (35.5%)	114 (28.5%)
Profit maximization potentials of IFP's are higher than conventional	3.59	1.149	26 (6.5%)	36 (9.0%)	99 (24.8%)	130 (32.5%)	92 (23.0%)

Source: Field Survey, 2018
Notes: SD- Standard deviation
Strongly disagree; 2- Disagree; 3- No effect; 4- Agree; 5- Strongly agree)

6.6.9 Government support for the use of Islamic Finance Products

The analysis of the perception of the respondents as presented in Table 6.13 reveals that a minority of 43.3% with a mean of 3.18 (SD =1.28), agree that government provided more micro financing schemes through Islamic finance products (IFPs). About 31.3% agree that all government credit schemes involve Islamic finance products. Half (50.8%) with a mean of 3.42 (SD = 1.15) agree that CBN financial inclusion activities involve Islamic finance products. 61% (mean of 3.65; SD =1.02) believe CBN is supporting Islamic finance products. Finally, 67.1% with a mean of 3.83 (SD =1.06) agree that CBN ensures the guarantee of Islamic finance products. This finding implies a low commitment by the Government toward enhancing financial inclusion through *Shariah* compliant credit schemes. Given that 60%-70% of adults from the Muslim dominated Northern Nigerian region are financially excluded

(EFInA, 2018), there is a need to have a popular *Shariah* compliant financial inclusion scheme that will cater for the need of those vulnerable financially excluded adults, especially in the Northern region where Muslims are dominant. However, the literature reveals that out of about ten financing schemes of the central bank only one has a *Shariah* compliant component (Zauro, 2017). This indicates a lack of commitment from the apex bank in providing *Shariah* compliant products.

Table 6.13: Presents the perception of respondents on their Perceived Government Incentives on prevailing Islamic financial products

Categories	Mean	S.D	1	2	3	4	5
Govt provided more micro financing scheme through IFP's	3.18	1.289	57 14.3%	56 14.0%	105 26.3%	105 26.3	68 17.0%
All Govt's credit schemes involves IFP's	2.88	1.222	56 (14.0%)	101 (25.3%)	101 (25.3%)	83 (20.8%)	42 (10.5%)
CBN's financial inclusion initiatives involves IFP's	3.42	1.152	31 (7.8%)	48 (12.0%)	103 (25.8%)	136 (34.0%)	67 (16.8%)
CBN is supporting IFP's	3.65	1.027	14 (3.5%)	41 (10.3%)	87 (21.8%)	168 (42.0%)	76 (19.0%)
CBN ensures the guarantee of IFP's	3.83	1.062	17 (4.3%)	27 (6.8%)	73 (18.3%)	157 (39.3%)	111 (27.8%)

Source: Field Survey, 2018
Notes: SD- Standard deviation
Strongly disagree; 2- Disagree; 3- No effect; 4- Agree; 5- Strongly agree)

6.6.10 Subjective Norms in the use of Islamic Finance Products

The analysis of the perception of the respondents as presented in Table 6.14 reveals that a minority (45%), with a mean of 3.31 (SD = 1.69), agree that their peers do not have influence over their choice of Islamic finance products (IFPs). More than half - 54.5% - agree that those who influence their activities would advise them to use Islamic finance products. A majority (58.6%) with a mean of 3.63 (SD = 1.02) agree that people whose opinion they trust advocate the use of Islamic finance products. Lastly 68% with a mean of 3.71 (SD = 1.10) agree that there are frequent reminders from Islamic scholars to use IFPs and avoid conventional finance around their environment. Responses regarding subjective norms suggested that using Islamic finance products is associated with the spiritual influence and viability of the sector, which guarantees the investors wealth and easy accessibility of funds for financing viable projects. Therefore, religious commitment is found to have a significant influence on individual attitudes (Jaffar & Musa 2016).

Table 6.14: Presents the perception of respondents on their Subjective Norms about prevailing Islamic financial products

Categories	**Mean**	**S.D**	**1**	**2**	**3**	**4**	**5**
Essential people around me do not have influence over my choice to use IFP'S	3.31	1.169	28 (7.0%)	69 (17.3%)	106 (26.5%)	113 (28.3%)	66 (16.5%)
Those who influence my activities would advise me to use IFP's	3.54	1.129	26 (6.5%)	39 (9.8%)	87 (21.8%)	146 (36.5%)	72 (18.0%)
Most people whom I cherish their opinion think that I better use IFP's	3.63	1.027	15 (3.8%)	39 (9.8%)	81 (20.3%)	167 (41.8%)	67 (16.8%)
There is frequent reminder from Islamic scholars use IFP'S and avoid conventional finance around our environment	3.71	1.109	15 (3.8%)	45 (11.3%)	74 (18.5%)	139 (34.8%)	101 (25.3%)

Source: Field Survey, 2018

Notes: SD- Standard deviation

Strongly disagree; 2- Disagree; 3- No effect; 4- Agree; 5- Strongly agree)

6.7 Discussion

To investigate the determinants for using Islamic finance products and the of individual perceptions on the use of Islamic finance products in Nigeria, a descriptive analysis of the use of such products and the perceptions of individuals on (intention, attitude, subjective norms, access, awareness, behavioral control, preference, religiosity, perceived government support and perceived economic) toward the products were analyzed and presented. In addition, the chapter presented the response rate and data reliability measurement.

The most widely used reliability measurement for evaluating the consistency of a scale is Cronbach's Alpha coefficient, which was applied in this study. The result was found to be 0. 95, which is above the average value of 0.7 and indicates a high level of internal consistency. Moreover, the findings revealed a 95% response rate, which is considered as acceptable for further analysis and discussion.

The findings further indicate that about half of the sampled respondents (43.8%) are currently using Islamic finance products. However, a high level of awareness, access, preference and intention are observed among the individuals, coupled a demonstration of positive attitude toward Islamic finance products. In addition, the majority (76.6%) of respondents were shown to have the requisite resources to use Islamic finance products. Given the complexity of Nigerian culture and the infancy of Islamic finance in the country, it can be argued that the use of Islamic finance products (IFPs) is gaining acceptance among the population. For instance, in Table 6.6, the majority of respondents (71.8%) expressed an intention to use such products in the near future. This could be perceived as a positive attitude toward IFPs amongst a substantial number of respondents (65.8%) as revealed in Table 6.7. Moreover, the findings further revealed that (57.8%) of participants preferred to use Islamic finance products. This finding supported those of Demirguc-Kunt et al. (2013) who found a high level of preference for Islamic finance products among individuals in sub-Saharan Africa. Therefore, there is enormous potential for the development of Islamic finance in Nigeria, and hence, assumption that Islamic finance could enhance financial inclusion is feasible.

The results further revealed that the majority of respondents agreed that Islamic finance products were accessible by the low-income group and that they have a strong awareness of the products offered by Islamic financial institutions. The respondents equally demonstrate strict compliance with religious provision and thereby consider financial services that align with Islamic injunction and positively perceived the economic benefits of Islamic Financial Products. This result reflects those of studies by Riaz et al. (2017), Abdullah et al. (2012), and Khaliffarah et al. (2019). Therefore, Islamic financial institutions in Nigeria have the potential for growth, especially if the market segment can meet the demand for financial services amongst the low-income class, where financial exclusion mostly emerges for religious reasons and from the exploitative nature of the conventional financial system. In response to research question three, these results have presented preliminary findings which will be further clarified by testing the hypothesises and the theoretical model developed by this study in the next chapter.

6.8 Conclusion

Using the data generated from the questionnaire, the findings and analysis of the data reliability measurement and tests for the multicollinearity, response rate and respondent demographics, have been presented. To enable further analysis, the chapter provided the results and preliminary analysis of the perceptions, awareness, access and use of Islamic finance products. The findings revealed high response rates and the majority of respondents were males at a productive age. Although Islamic finance is new in Nigeria, descriptive results suggest about half of the respondents use Islamic finance products, as demonstrated by their substantial awareness, positive attitudes and preferences for Islamic finance products. Furthermore, most respondents have an intention to use Islamic finance products. The next chapter will provide further analyses that test the conceptual model, as depicted in Figure 3.5, the hypothesis based on the determinant of financial inclusion, and the influence of individual perceptions on the use of Islamic finance products.

Chapter Seven

Empirical Examination of Determinants Financial Inclusion and the Impact of Islamic Finance on Enhancing Financial Inclusion in Nigeria

Chapter 7

Empirical Examination of Determinants of Financial Inclusion and the Impact of Islamic Finance on Enhancing Financial Inclusion in Nigeria

7.1 Introduction

The previous chapter discusses the preliminary analysis and findings on the determinants of financial inclusion and the influence of individual perceptions. This Chapter is devoted to the presentation of further empirical analysis and findings on the impact of Islamic finance in enhancing financial inclusion in Nigeria as proxied by Islamic banking deposit. Moreover, the chapter empirically tested the conceptual model developed as an extension of the theory of planned by the study to examine the influence of individual perceptions on using Islamic finance products and further analysis and findings on determinants of financial inclusion are presented. There are four empirical analyses in this chapter aimed at achieving objectives two, three and four of the study respectively. The first empirical analysis presented in section 7.2 to 7.4 are the analysis and findings of the determinants of financial inclusion in Nigeria denoted by (formal account, saving, credit and use of Islamic financial products). To achieve objective three, Section 7.5 presents the analysis and results of the influence of the perceptions of adults toward using Islamic finance products (IFPs) using data from the questionnaire and the theoretical model of the study was tested accordingly.

On the other hand, section 7.6 presents the analysis and findings on the impact of using Islamic finance products on promoting financial inclusion in Nigeria to achieve objective four as stated in chapter one of the study. Finally, a discussion and conclusion of findings is presented in this chapter.

7.2 Examining the Determinants of Financial Inclusion in Nigeria

This section presents descriptive statistics and the results on the determinants of the main three financial inclusion indicators. In line with Zins and Weill (2016), this study focuses on the three main measures of financial inclusion. Accordingly, Table 7.1 shows the dependent variables for financial inclusion denoted by formal account, savings and credit. Where account with financial institutions, represents an adult, has an account either at a financial institution or through a mobile money provider, saves in institution represents an adult saved using an account at a financial institution in the past 12 months and credit from formal financial institution indicates that respondent borrowed from a financial institution within a one calendar year.

Table 7.1: Description of Dependent Variables

Variables	Types of Variables	Definition of Variables
Account with FI	Binary	Adult have an account either at a financial institution or through a mobile money provider takes 1 or 0 otherwise
Saves in FI	Binary	An adult saved using an account at a financial institution in the past 12 months takes 1 or 0 otherwise
Credit from FI	Binary	An adult borrowed from a financial institution within a one calendar year takes 1 or 0 otherwise

Source (Author, 2019)

The explanatory variables are presented in table 7.2, where four major individual attributes gender, age, educational attainment and income are adopted as independent variables to explain the dependent variable, financial inclusion is denoted by formal account, savings and credit as presented in table 7.1.

Table 7.2: Independent Variables

Variables	Types of Variables	Definition of Variables
GEN	Binary	If respondent is female dummy value carries 1 and 0 otherwise
AGE	Binary	Two measures represent age. Age (numbers of years) and Age²
Edu. Level 2	Binary	If adult completed Secondary education value takes 1 and otherwise 0
Edu. Leve 3	Binary	If adult completed Tertiary education value takes 1 and 0 elsewise
Income level 2	Binary	If an adult is in first poorest income level value take 1 or 0 elsewise
Income Level 3	Binary	If adult is in second income level value takes 1 or 0 elsewise
Income Level 4	Binary	If adult is in third income level value takes 1 or 0 elsewise
Income Level 5	Binary	If adult is in third income level value takes 1 or 0 elsewise

Source: Author (2019)

The summary of descriptive statistics is presented in table 7.3. The result shows almost similar values for the mean and median, which suggests a symmetrical distribution as suggested by Waziri (2016).

Table 7.3: Summary of Descriptive statistics

Descriptions	Observation	Mean	Median	Minimum	Maximum	SD
Account	1000	1.46	1.00	1	2	.499
Saving	1000	1.69	2.00	1	4	.490
Credit	1000	1.96	2.00	1	4	.243
Gender	1000	1.44	1.00	1	2	.497
Education	1000	1.80	2.00	1	5	.521
Age	997	33.36	30.00	15	99	14.09
Income	1000	3.30	4.00	1	5	1.451

Source: (Global Findex, 2016)

Table 7.4 shows the outcome of the variance inflation factor (VIF) test and correlation performed in this study to test for multicollinearity between the independent variables. The result shows that the coefficients of the correlations among all the variable does not exceed 0.800, therefore there is no issue of multicollinearity (Gujarati, 1995). Likewise, the variance inflation factor for all the independent variables is below 10, thus there is no issue of multicollinearity (Kutner et al., 1983).

Table 7.4: Correlation Matrix and Variance Inflation Factor

Variables	VIF	Account	Savings	Credit	Gender	Age	Education	Income
Account		1.0000						
Savings		0.4853	1.0000					
Credit		0.0902	0.1318	1.0000				
Gender	1.048	0.1829	0.0865	0.0503	1.0000			
Age	1.077	-0.0173	-0.0310	-0.0560	-0.0590	1.0000		
education	1.136	-0.3330	-0.1993	0.0104	-0.01681	-0.2456	1.0000	
Income	1.050	-0.2169	-0.1689	-0.0114	-0.1133	-0.0703	0.1993	1.0000

Source (Field survey, 2018)

Table 7.5 presents the descriptive statistics for the three indicators of financial inclusion employed in the model. From the data extracted from the global findex database, an estimated 53 percent of Nigerians are reported to have a formal account, 35 percent had savings with a financial institution within the 12 calendar months. However, only 7 percent had access to formal credit. Comparing these figures to the results of Zins and Weil (2016) we can observe that all the main indicators of financial inclusion in Nigeria are higher than the African average but lower than the global average.

Using data from the Global Findex database, Zins and Weill (2016) observed that only 35% of adults in Africa hold an account at a bank and 61.5% of adults do so globally. Savers in Africa were revealed to be 15.4 of adults within the 12 calendar months compare to 27.45 of adults globally. Individuals seem to be less interested in taking loans from formal financial institutions in Africa, where the findings reveal that 6.7% of adults in Africa collect loans and 10.7% do so globally.

Table 7.5: Financial Inclusion Indicators

Indicators	Nigeria	Africa	Global
Formal Account	53%	35%	61.5%
Formal Saving	35%	15.4%	27.4
Formal Credit	7%	6.7	10.7%

Global Findex (2017)

On the barriers to financial inclusion, an examination of table 7.6 reveals that the main barriers reported in Nigeria were a lack of money, which is 67%. The next important identified barriers are “too far away” (32%), “lack of documentation” (26%), “No need for financial services” (25%) and “too expensive” (23%). The least important barriers were “religious reasons” (10%) “Lack of trust “(12%) and “family member has an account” (16.2%). Comparing these figures to the findings of Zins and Weil (2016), the explanation of “lack of money” as the major barrier of access to formal financial services in Nigeria is consistent with the author’s findings of 70,8% African average and worldwide at 59%. This can be attributed to the alarming poverty rate in the country. For instance, the World Bank (2018) report revealed that Nigeria is one of the countries with extreme poverty. The least important factor was also identified as religious reasons.

Table 7.6: Barriers to Financial Exclusion

Variable	**Obs.**	**Mean**	**Std. Dev**
Main indicators of Financial Inclusion			
Formal Account	1,000	0.539	0.4987261
Formal Saving	1,000	0.351	0.5423035
Formal Credit	1,000	0.073	0.3402746
Barriers to Financial Inclusion			
Too far away	473	0.3255814	0.6207234
Too expensive	473	0.2346723	0.639371
Lack of documentation	473	0.2642706	0.6209038
Lack of trust	473	0.1522199	0.5427491
Lack of money	473	0.6723044	0.6109994
Religious reasons	473	0.1057082	0.5342399
Cannot get an acct.	473	0.1649049	0.550688
Family member has one	473	0.1627907	0.5376997
No need for fin services	473	0.255814	0.5966831

Source (Field survey, 2018)

7.3 Determinants of Financial Inclusion: Formal Account, Savings and Credit

The four individual demographic characteristics; Age, Gender, Income and Education levels are considered as predictors (independent variables) while financial inclusion is defined by formal credit, account holding and saving as dependent variables (financially included). To make prediction whether an individual is Financially Included or Excluded, values 1 and 0 are assigned respectively to the dependent variable. The goal is to quantify the association between the individual attributes and the probability of being financially included. These demographic characteristics are useful predictors of the probability of access to finance. Individual differences in age, educational attainment, income and other observable characteristics, hence associating these demographics with Financial Inclusion is also vital for policy response and planning financial inclusion programs.

In accordance with Zins & Weill (2016) the dependent variable ('financial inclusion') is binary and takes the value of 1 if that particular adult has a formal account, formal credit or has had formal savings in the last twelve months and is 0 otherwise. Thus, a model which is appropriate for dichotomous dependent variables is required, such as probit or logit regression. Gender is also a binary (dummy) variable, which is equal to one (1) if the individual is a male and is zero (0) if female. Age is a continuous variable represented by numbers of years. To consider income, four dummy variables were employed (second 20%, third 20%, fourth 20% and fifth (richest) 20%). The omitted dummy variable is the first poorest quintile. Dummy variables carry 1 if individual is in first to fifth quintile or zero (0) elsewise. With regards education, this study adopts 2 dummy variables for Tertiary and Secondary education. Tertiary carry 1 if respondent has finished Tertiary institution or 0 elsewise. Similarly, Secondary school carry 1 if respondent finished secondary school or 0 elsewise. Primary or less is the omitted dummy variable.

This objective is expected to explore the individual attributes that influence the probability of being financially included in Nigeria.

Table 7.7: Determinants of Financial Inclusion in Nigeria (Formal Account)

Variables	Coefficient	Odds Ratio	Marginal Effect
GEN	0.492*** (0.141)	1.635*** (0.230)	0.103*** (0.029)
AGE	0.017*** (0.005)	1.017*** (0.005)	0.004*** (0.001)
EDU_2	1.376*** (0.181)	3.957*** (0.715)	0.310*** (0.037)
EDU_3	3.147*** (0.549)	23.277*** (12.771)	0.599*** (0.058)
INC_2	-0.074 (0.241)	0.928 (0.224)	-0.016 (0.058)
INC_3	0.188 (0.237)	1.207 (0.286)	0.041 (0.052)
INC_4	0.519** (0.219)	1.680** (0.368)	0.114** (0.048)
5	0.853*** (0.214)	2.347*** (0.503)	0.184*** (0.046)

Source: (Field Survey, 2018)
*   *Significance at at the 10% level*
**   *Significance at at the 5% level*
*** *Significance at at the 1% level*

Table 7.7 presents the results of coefficient, odd ratios and marginal effects of the logistic regression estimations for the determinants of access to financial services using an account with financial institutions as the indicator of financial inclusion. Logistic regression is the statistical method of choice for analysing a dataset when the dependent variable is dichotomous (binary) and one or more nominal, ordinal, interval, or ratio-level independent variables.

The second column of Table 7.7 presents the coefficients, which are the outcome of the estimation of the logit regression model for predicting the dependent variable from the explanatory variables, which are in log-odds units. The third column presents the odds ratio (OR) which measures the association between financial inclusion and the demographic characteristics (dependent and the explanatory variables). The odds ratio (OR) represents the odds (likelihood) that an individual is financially included, given a particular demographic characteristic, compared to the odds of being excluded in the absence of that characteristic. The last column presents the margins, which are the predicted probabilities.

An examination of the estimated model reveals the fit of the models, looking at the likelihood ratio Chi –square and p-value associated with the chi square with 5 degrees of freedom the values indicate that the models are statistically significant.

Looking at the coefficients from column 2 of table 7.7, all the variables have parameters that are statistically significant, except the second 20% and third 20% income quintiles. Hence, the coefficients are not significantly different from 0. The key variables, Gender, Age, Education and the fourth- and fifth-income quintile, have parameters that are statistically significant and hence the probability of financial inclusion does depend on these variables as suggested by hypothesis H_{1a}. The parameters also have the correct positive signs, indicating that the greater the age, education and income, the more likely it is for an individual to be financially included. Males are also more likely to be included than females.

The coefficient (or parameter estimate) for the variable Gender is 0.492. This implies that for a single increase of a unit in a male (in other words, changed from a female to male), a 0.492 increase in the log-odds of the dependent variable is assumed. Financial inclusion, holding all other explanatory variables constant. It is also assuming a 0.017 increase in the log-odds being financially included for every one-unit increase in Age. This supports the findings of Allen et al. (2012) who suggest the positive influence of these individual attributes in influencing financial inclusion (particular bank account and saving) among individuals in 123 countries. The coefficient is in log-odds units, which are considered difficult to interpret. Hence, it has been converted to odds ratios.

Interpreting the odds ratio, from the third column of Table 7.7 we can observe that the odds of being financially included is 1.63 times the odds if the individual is male as opposed to female. For every one-unit increase in age of the respondents, we expect a 1.017 increase in the log-odds of being financially included, holding all other independent variables constant. Being a man increases the probability of being financially included, for an individual with secondary school education the odds ratio indicates the odds of being financially included are 3.95 times larger than an individual with a primary certificate. The coefficient is higher for tertiary education, with the odds of being financially included 23.27 times larger than an individual with primary education. In summary, people that are more educated are more likely to be financially included. The odds ratio also indicates a large and statistically significant increase in financial inclusion for each increase in income quintile. Likewise, higher levels of financial inclusion are associated with higher levels of income.

Looking at the marginal analysis from the last column of table 7.7, the study reveals that all individual attributes have substantial relation with access to financial services with the exception being second- and third-income quintile. Being a male, being older and more educated with higher income significantly increases the probability of having a formal account and being financially included. Men are 10 percentage points more likely to be financially included than females. And on average, Nigerian financial inclusion increases 0.3 times for every additional increase in Age of the respondent. Secondly, educated individuals are 30.9 percentage points more likely to be financially included while tertiary educated Nigerians are 60 percentage points more likely. Hence, in relation to formal account as an indicator of financial inclusion such result is in consistence with hypothesis $H_{1a.}$

The proceeding analysis attempted to find out the most significant individual attributes explaining financial inclusion using formal account as a measure of access to finance. I now provide a comparative analysis of the determinants of access to financial services using formal savings (Table 7.8) and Formal Credit (in Table 7.9) as the indicators of financial inclusion.

Table 7.8: Determinants of Financial Inclusion in Nigeria (Formal Savings)

FMSAV	Coefficient	Odds Ratio	Marginal Effect
Gen	0.238*(0.144)	1.26*(0.183)	0.04***(0.029)
Age	0.016***(0.005)	1.016***(0.005)	0.003***(0.001)
Educ			
2	0.979***(0.199)	2.66***(0.531)	0.032***(0.033)
3	1.557***(0.344)	4.74***(1.63)	0.075***(0.075)
Inc_Q			
2	0.335(0.266)	1.39(0.372)	0.049(0.049)
3	0.322(0.262)	1.38(0.362)	0.048(0.048)
4	0.659***(0.236)	1.93**(0.457)	0.045***(0.045)
5	0.366***(0.214)	2.37***(0.540)	0.043***(0.043)
_cons	-2.147***(0.227)	0.066***(0.22)	

Source: (Global findex, 2016)
* Significance at at the 10% level
** Significance at at the 5% level
*** Significance at at the 1% level

There are 8 effects in the model Gen, Age, Educ 2, Educ 3, Inc_Q 2, Inc_Q 3, Inc_Q 4 and Inc_Q 5. Looking at the goodness of fit tests, there is no evidence of gross deficiencies with the models. The small p-value (0.000) for the LR chi squared statistics indicates that one or more effects in the model are important for predicting the probability of financial inclusion in Nigeria.

From Table 7.8, using Formal Savings as the indicator of financial inclusion, we observe positive (significant) estimates on the gender, age, primary and secondary education as well as on the fourth- and fifth-income quintile. Consistent with hypothesis H_{1a} individual attributes determines formal saving. In other words, individuals who are educated and have higher income levels with more age are more likely to be financially included rather than individuals who are younger and have the poorest income quintiles.

I now estimate the previous model using the third and final measure/indicator of financial inclusion (Formal Credit**)** to provide a comparative analysis of the determinants of financial inclusion and the results are presented in Table 7.9.

I retain the same 8 effects in the model Gen, Age, Educ 2, Educ 3, Inc_Q 2, Inc_Q 3, Inc_Q 4 and Inc_Q 5 as possible predictors of financial inclusion as in the case for the two previous indicators of Financial Inclusion. The model however does not pass the goodness of fit test, suggesting deficiency with the model as suggested by the large p-value for the LR chi squared statistics. Furthermore, except for gender, there are no significant results. The main conclusion from Table 7.9 is that men are more likely to take loans from financial institutions than women. While no other significant result is observed concerning the effects (Age, Education and Income quintile). Such result partially supported hypothesis H_{1a} as only gender have influence on access to formal credit, while all other three variables (age, income and education) tend to have insignificant influence on the use of formal credit among the individuals.

Table 7.9: Determinants of Financial Inclusion in Nigeria (Formal Credits)

FMCRD	Coefficient	Odds Ratio	Marginal Effects
GEN	0.506* (0.295)	1.635* (0.489)	0.027* (0.016)
AGE	0.009 (0.009)	1.001 (0.009)	0.001 (0.001)
EDUC 2	0.117 (0.352)	1.125 (0.396)	0.006 (0.018)
EDUC 3	0.446 (0.615)	1.561 (0.961)	0.026 (0.042)
INC_Q 2	0.456 (0.481)	1.577 (0.758)	0.025 (0.027)
INC_Q 3	0.475 (0.472)	1.608 (0.759)	0.027 (0.026)
INC_Q 4	-0.028 (0.478)	0.972 (0.466)	-0.001 (0.028)
INC_Q 5	0.118 (0.450)	1.125 (0.507)	0.006 (0.021)
_cons	-3.721 (0.618)	0.024 (0.014)	

Source: (Global findex, 2016)
* *Significance at the 10% level*
** *Significance at the 5% level*
*** *Significance at the 1% level*

7.4 The Determinants of using Islamic financial products in Nigeria

The previous section presents the influence of four individual demographic attributes (age, gender, income and education) on the use of 3 main financial inclusion indicators (Accounts with financial institution, savings and credit). This section will present the further analyses on the influence of these individual attributes on the use of Islamic finance products, using the data collected from adults through the questionnaire.

The logistic regression analysis in this section is being used to identify the nature of the influence of each explanatory variable and the use of Islamic financial products to answer the research question.

The logistic regression model was estimated to determine the relationship between the main individual characteristics and the of use Islamic Financial products. The results of this investigation are reported in Table 7.11.

7.5 Empirical Examination of the Determinants of using Islamic Financial Products in Nigeria

This subsection presents the logistic regression performed to identify the effect of the four individual characteristics on the use of Islamic finance products in Nigeria. The result of the logistic regression is interpreted based on the evaluation of the model equation.

Using data from the administered survey, the section considers one indicator of financial inclusion namely: currently using of Islamic finance Products—to test their use by individuals. It specifically examines the influence of four individual characteristics—education, income, age, and gender—on the indicator of usage.

The Model chosen is quantitative research where the endogenous variable is a dummy, dichotomous, binary or categorical variable, with 1 representing respondents using Islamic financing, and 0 if respondents are not using Islamic financing.

Logit Regression Technique is employed for estimating the probability that an event (a single discrete dependent variable) occurs or not, given a set of factors (independent variables).

Symbolically, the binary models are of the form:

$Y^* = \alpha_0 + \sum \alpha i \ Xij + \mu i$………………………………………… (1)

Where,

Y*, Islamic financing is an unobserved hidden variable. What is actually observed is a binary variable say **IF** define by the:

IF= Yes (1) stands for using Islamic finance product, while No (0) stands for otherwise.

The assumption made here is that adults are faced with a choice between two alternatives i.e. using Islamic finance products or are not using Islamic financing. The choice made depends on their personal characteristics.

The explicit form of the model to be estimated will read:

IF=f(Gender, Age, Education and Monthly Income). Symbolically represented as

$\boldsymbol{IF_i} = \beta_0 + \alpha_1 \, AGE + \alpha_2 EDUC + \alpha_3 INC + \alpha_4 \, GEN + \mu_i$………………… (2)

Where IF_i is financial inclusion (which is use of Islamic financial product).

The variables employed for the analysis are explained below:

7.6 The dependent variable (use of Islamic Finance): Financial Inclusion

Table 7.10 presents the variables used in this section of the analysis, where financial inclusion is denoted using IFPs, which is a binary variable where individuals were given 1 if they are using IFPs and 0 if they are not. On the other hand, four individual demographic attributes were adopted as predictor variables. Accordingly, the model seeks to investigate the influence of Age; Gender; Monthly income and Education on the use of Islamic finance products by the respondents.

Table 7.10: Description of Variables

Variables	Types of Variables	Definition of Variables
Dependent Variable		
Use of IFPs	Binary	Represent financial inclusion, which is a binary variable where individuals were given 1 if they are using IFPs and 0 if they are not using.
Independent Variables		
GEN	Binary	If respondent is female dummy value carries 1 and 0 otherwise
AGE	Binary	Two measures represent age. Age (numbers of years) and Age²
Edu. Level 2	Binary	If adult completed Secondary education value takes 1 and otherwise 0
Edu. Leve 3	Binary	If adult completed Tertiary education value takes 1 and 0 elsewise
Income level 1	Binary	If an adult is in first poorest income level value take 1 or 0 elsewise
Income Level 2	Binary	If adult is in second income level value takes 1 or 0 elsewise
Income Level 4	Binary	If adult is in third income level value takes 1 or 0 elsewise

According to the logistic regression equation model, the access to financial services (financial inclusion) is a function of the effect of the individual characteristic (Gender, Age, Income and Education). It is assumed that access to formal financial services is influenced by the individual attributes. This implies that financial inclusion is influenced by the marginal effects on the individual attributes. For instance, being a male or female, educational qualification, younger or older age and income level of the individual determines their access to formal financial services. Thus, enhanced financial inclusion in this study is measured by explaining the impact of the specific individual on access to Islamic financial services.

Concerning the fit of the model, looking at the likelihood ratio Chi –square and p-value associated with the chi square with 5 degrees of freedom, the values indicated that the model is statistically significant.

7.6.1 Model Estimation Result for determinants of use of Islamic Finance Products in Nigeria

Table 7.11: A logistic regression of factors influencing use of Islamic financial Products.

CUIFP	Coef.	z	P>z	[95% Conf.	Interval]	Odds Ratio	z	P>z
Gender	0.535859	2.16	0.031	0.048759	1.022959	0.133068	2.16	0.031
Age	0.509155	2.24	0.025	0.063051	0.955258	0.126437	2.23	0.025
Education	0.241891	1.67	0.095	-0.04241	0.526189	0.060068	1.67	0.096
Monthly_Income	0.355501	2.29	0.022	0.051852	0.659149	0.08828	2.29	0.022
_cons	-2.37082	-4.95	0	-3.30861	-1.43303			

Source: (Field survey, 2018)

There are 4 effects in the model Gender, Age, Education and Income. Looking at the goodness of fit tests, there is no evidence of gross deficiencies with the model. The small p-value (0.000) for the LR chi squared statistics implies that one or more effects in the model are important for predicting the probability of the willingness to use Islamic financial products. In consistent with hypothesis H_{1b} the test for parameters suggests that 3 of the 4 predictors, all with the exception of education, are significant at the 0.001 level (p value less than 0.05).

Table 7.11 reports the coefficients denoted (**Coef**.) - These estimates tell the amount of increase in the predicted log odds of IF = 1 that would be predicted by a 1 unit increase in the predictor, holding all other predictors constant. For the independent variables which are not significant, the coefficients are not significantly different from 0, which should be considered when interpreting the coefficients.

7.6.1.1 Estimation Result

The coefficient (or parameter estimate) for the variable Gender is 0.53. The coefficient implies that moving from male to female results in a.0.53 unit change in the log of the odds of Islamic finance **(IF)**. Put differently, the log odds of Islamic finance (**IF)** would change by 0.53 for every 1-unit change in gender when other predictors are held constant.

For every one-unit increase in Age, that is for every one-unit increase in experience or age of the adult, we expect a 0.50 increase in the log-odds of **IF**, holding all other independent variables constant. The coefficient (or parameter estimate) for the variable ÛEducation is 0.24. This means that for any change in the respondent's education, we expect a 0.24% decrease in the log-odds of the dependent variable **IF**, holding all other independent variables constant.

That means the better the respondent is educated the more their willingness to use IFPs degreases, this can be attributed to the notion that western educated people are indifferent in choosing their financial service, either conventional or Islamic. On the other hand, for every change in monthly income, we expect a 0.35 increase in the log-odds of **IF**, holding all other independent variables constant. The constant (**_cons)** is the expected value of the log-odds of **IF** when all of the predictor variables equal zero. The signs of the estimated regression coefficients also make sense as we would expect the predictor variables to be positive

However, given the coefficients are in log-odds units makes them difficult to interpret, so they are often converted into odds ratios. The odd ratio is also reported in table 7.11 (7^{th} column). Interpreting the odds ratio, we can observe that the odds of an adult male using Islamic financing is 0.13 times more than the odds of using the Islamic financing if the adult is female. The odds of an adult who has no basic education using Islamic financing are 0.06 times higher than for an adult with higher educational achievement. The odds of older age adults using Islamic financing is 0.12 larger than for a younger adult. Finally, we can observe that the odds of an adult with higher income using Islamic financing are 0.12 higher than for an adult with lower income.

The results supported hypothesis H_{1a} and H_{1b} and from the findings of the investigation into the barriers to financial inclusion in Nigeria as presented in table 7.6 of this chapter, where

67% of the financially excluded adults revealed that lack of money was their main reason not to use financial services. However, the other two used in this study to measure the general determinants of financial inclusion (i.e Islamic and conventional financial systems) in the study area except education reveal similar influence on financial inclusion. With regards to the educational attributes, adults with lower educational qualifications are more likely to use Islamic financial products than adults with high educational qualifications. Al-Ahmed (1996) opined that educational levels have significant impact on bank patronage. However, the Label of Islamic bank's products looks "ambiguous, leaving people in doubt" (Hamid & Nordin, 2001), making it difficult for customers to understand, thus they stay away. On the other hand, the literature suggested that people with Islamic knowledge are more likely to use Islamic finance products (IFPs) than people with less Islamic knowledge (Echchabi, 2012). However, a finding of this study (see table 6.16) is that most respondents are curious in seeking Islamic knowledge agrees with the finding by Adewole (2017) that a majority of people in Northern Nigeria are participating in Islamic education. However, another study suggested that people with Islamic knowledge are more likely to use Islamic finance products than those with less Islamic knowledge. Moreover, the findings on gender and age supports the finding by this study that reported older males are associated with increased chances of being financially included and various reports from the literature suggested positive influence of being an older male on enhanced financial inclusion (Zins & Weil, 2016).

7.7 Influence of Individual Perceptions on the use of Islamic Financial Products in Nigeria: An Empirical Investigation

The theoretical model of this study discusses the influence of individual perceptions on performing certain actions. Moreover, the conceptual framework of the study is explained in figure 3.5, where the theory of planned behavior is adopted and further variables such as preferences, religiosity, perceived government support and perceived benefits, awareness and access were articulated to the theory of planned behavior to develop a measurable model.

Accordingly, in line with Zauro (2017) this section aims at presenting empirical evidence of the relationship between individual perceptions and the use of Islamic finance products (IFPs) and hence, financial inclusion. Table 7.12 presents the description of the variables adopted in estimating the model. From the data collected via the questionnaire, the indicator 'Currently using Islamic finance products' has been considered as a dependent variable to test the influence of individual perceptions derived from the conceptual model. Specifically, to examine the influence of the key variables Awareness, Access, Attitude, Intention, Preference, Perceived benefit, Perceived government support, Religiosity, Subjective Norms and behavioral control on individual behavior toward using Islamic finance products in Nigeria. Given that the dependent variable is binary, Logistic regression is used to estimate the probability that the predictor variables influence the use of Islamic finance products (dependent variables). The model is represented as thus;

$UI_i = \beta_0 + \alpha_1 AEIFP + \alpha_2 AIFP + \alpha_3 PIFOC + \alpha_4 CRDM + \alpha_5 ISLCR + \alpha_6 CBNIF + \alpha_7 IFIMS + \alpha_8 ITFIFP + \alpha_9 CMIFP + \alpha_{10} EPAIF\ \mu_i$………………… *(1)*

Where UI_i Use of Islamic financial products a dichotomous variable and is explained by the predictor variables as presented in table 7.12.

Table 7.12 presents the specifications for both dependent and independent variables used to predict the influence of the explanatory variables on the dependent variable.

Table 7.12: Variables description

Variables	Types of Variables	Definition of Variables	Measurement of Variables
CUIFP	Binary	Use of IFPs denoted by Currently using Islamic finance	Takes value of 1 if individual is currently using Islamic finance products 0 otherwise
AEIFP	Likert Scale	Awareness	Whether the person aware of the Islamic finance products
AIFP	Likert Scale	Access of IFPs	Whether the person have Access to Islamic finance products
PIFOC	Likert Scale	Preferences of IFPs	Whether the person have preference on Islamic finance products
CRDM	Likert Scale	Religiosity	If the person committed to his religious duty. Hence encourages him use of IFPs
ISLCR	Likert Scale	Perceived Benefits	If the person perceived any benefits from using IFPs
CBNIF	Likert Scale	Perceived Govt. Support	If the person perceived any govt support in using IFPs. Such as interest free or grant credit
IFIMS	Likert Scale	Attitude Toward IFPs	How the individual understands the concept of IFPs
ITFIFP	Likert Scale	Intention to use IFPs	How individual intent to use IFPs
CMIFP	Likert Scale	Behavioral Control	If person has required resources to use IFPs
EPAIF	Likert Scale	Subjective Norms	If anyone can influence him to use IFPs

Source (Author, 2019)

Table 7.13 presents the outcome of the correlation and variance inflation factor (VIF) test conducted to check for multi collinearity among the explanatory variables. The findings reveal that the distribution of correlations among all the variables does not exceed 0.800, thus there is no concern as suggested by Gujarati (1995). Similarly, the VIF for all the independent variables IS below 10, thus there is no issue of multicollinearity (Kennedy, 1992).

Table 7.13: The Correlation Matrix between the Explanatory Variables and Variance Inflation Factor

		Correlations										
Constructs		VIF	Awareness	Access	Subjective Norms	Preference	Behavioural Control	Intention	Perceived Benefits	Religiosity	Attitudes	Perceived Government Support
Awareness	Pearson Correlation	1.431	1.0000	.339**	.323**	.378**	.408**	.241**	.294**	.357**	.224**	.244**
	Sig. (2-tailed)			.000	.000	.000	.000	.000	.000	.000	.000	.000
	N		395	388	381	391	387	382	389	390	380	384
Access	Pearson Correlation	1.324	.339**	1.0000	.316**	.273**	.160**	.269**	.348**	.177**	.284**	.245**
	Sig. (2-tailed)		.000		.000	.000	.002	.000	.000	.000	.000	.000
	N		388	392	376	384	381	379	382	385	378	378
Subjective Norms	Pearson Correlation	1.325	.323**	.316**	1.0000	.251**	.219**	.137**	.251**	.270**	.155**	.377**
	Sig. (2-tailed)		.000	.000		.000	.000	.008	.000	.000	.003	.000
	N		381	376	382	378	378	371	375	377	368	377
Preference	Pearson Correlation	1.317	.378**	.273**	.251**	1.0000	.293**	.266**	.398**	.309**	.190**	.223**
	Sig. (2-tailed)		.000	.000	.000		.000	.000	.000	.000	.000	.000
	N		391	384	378	391	384	379	386	389	377	381
Behavioural Control	Pearson Correlation	1.371	.408**	.160**	.219**	.293**	1.0000	.261**	.286**	.371**	.164**	.244**

	Sig. (2-tailed)		.000	.002	.000	.000		.000	.000	.000	.002	.000
	N		387	381	378	384	388	375	381	383	374	381
Intention	Pearson Correlation	1.244	.241**	.269**	.137**	.266**	.261**	1.0000	.399**	.216**	.235**	.171**
	Sig. (2-tailed)		.000	.000	.008	.000	.000		.000	.000	.000	.001
	N		382	379	371	379	375	384	378	379	375	373
Perceived Benefits	Pearson Correlation	1.398	.294**	.348**	.251**	.398**	.286**	.399**	1.0000	.332**	.194**	.214**
	Sig. (2-tailed)		.000	.000	.000	.000	.000	.000		.000	.000	.000
	N		389	382	375	386	381	378	389	385	376	378
Religiosity	Pearson Correlation	1.336	.357**	.177**	.270**	.309**	.371**	.216**	.332**	1.0000	.145**	.225**
	Sig. (2-tailed)		.000	.000	.000	.000	.000	.000	.000		.005	.000
	N		390	385	377	389	383	379	385	391	378	380
Attitudes	Pearson Correlation	1.149	.224**	.284**	.155**	.190**	.164**	.235**	.194**	.145**	1.0000	.081
	Sig. (2-tailed)		.000	.000	.003	.000	.002	.000	.000	.005		.122
	N		380	378	368	377	374	375	376	378	382	370
Perceived Government Supports	Pearson Correlation	1.247	.244**	.245**	.377**	.223**	.244**	.171**	.214**	.225**	.081	1.0000
	Sig. (2-tailed)		.000	.000	.000	.000	.000	.001	.000	.000	.122	
	N		384	378	377	381	381	373	378	380	370	385
	**. Correlation is significant at the 0.01 level (2-tailed).											

Source: (Field survey, 2018)

The coefficients presented in column 2 of Table 7.14 indicate that the predictor variables for the use of IFPs indicated a positive association with the dependent variable which is the use of Islamic finance products (IFPs), except perceived Government support which the coefficient suggested as having negative association with the use of Islamic finance products, in other words perceived government support does not influence the use of Islamic finance products in Nigeria. The predictor variables awareness, access to Islamic finance products, preferences, religiosity, perceived economic benefits, attitude, intention, behavioural control and subjective norms have significant positive parameters, thus the variables have influence on the use of Islamic finance products, as suggested by the conceptual model of the study. Thus, the use of Islamic finance products is influenced by these important variables. The parameters estimate reveals positives association, except perceived government support. Hence, having awareness, preference, positive attitude, intention, perceived benefits, being committed to religious duty, access to important people with influence over decision making to use Islamic finance products is significantly influencing the use of Islamic finance.

Table 7.14: Factors influencing Individual Behaviour

Variables	Logit Model	Marginal Effect
CUIFP		
Awareness	.0528368 (.0178216)	.0095420 (.00322)
Access of IFPs	.017067 (.0068024)	.006204 (.00247)
Preferences of IFPs	.0452259 (.0147071)	.0262208 (.00852)
Religiosity	.0060189 (.0022068)	.0075002 (.00201)
Perceived Benefits	.0078375 (.0036145)	.0043416 (.002)
Perceived Govt. Support	-.0127736 (.0095289)	-.0031417 (.00234)
Attitude Toward IFPs	.035523 (.0115853)	.0058112 (.00189)
Intention to use IFPs	.0005345 (.0003215)	.0003315 (.00020)
Behavioural Control	.0044383 (.0022622)	.0030022 (.00153)
Subjective Norms	.0046636 (.0022201)	.002147 (.00102)
Constant	.271336 (.122363)	
Number of obs.= 400 LR chi2(10) = 8.54 Prob > chi2=0.0006 Pseudo R2=0.2156 Log likelihood = -269.85772		

Source (Field Survey, 2018)

The parameter estimate for the predictor awareness is .0528. This suggests that for a single change from being ignorant to becoming aware of Islamic finance products (IFPs) is expected to increase the log-odds of the use of Islamic finance products (dependent variable), while holding constant all other predictor variables. From the result coefficient for access to Islamic finance products is also expected to increase .017 log of the use of Islamic finance products. Holding all other variables constant, an increase in the unit of preferences of an individual implies .045 increase in log odds of using Islamic finance products. The parameter estimates or coefficient religiosity is .0060. This implies that a change in the commitment of an adult toward his/her religiosity is expected to yield a 0.0060 increase in the use of Islamic finance products, all things being equal.

However, for every unit increase in individual perception toward perceived benefit we expected .0078 increase in log odds of using Islamic finance products, while holding all other variables constant. Furthermore, for having positive attitude toward Islamic finance products, we expected .035 increase in log odds of using Islamic finance products, holding all other variables constant. The parameter estimates for intention suggested .0005 increase in the log odds, while holding all other variables constant. It is expected a .004 increase in log odds of using Islamic finance products for every unit increase in Behavioural control. While every unit increase in subjective norms is expected to be increased by 0.004 in log odds of using Islamic finance products.

Considering the marginal effect results from column 3 of table 7.14, this study revealed that all the variables adopted have significant association with individual behaviour toward the use of Islamic finance products as explained in the conceptual model of the study in chapter 3, except perceived Government support. Access, attitude, intention, awareness, preference, perceived benefits, religiosity, behavioural control and subjective norms all have significant influence on individual behaviour toward using Islamic finance products. In other words, having access, awareness, positive attitude, preference, intention, perceived benefits, behaviour control and subjective norms influence behaviour toward using Islamic finance products. Having access is .017 times more likely to affect the use than without access. Awareness tends to influence individual behaviour toward Islamic finance products .05 times more than those that are not aware. For those with a preference there is .04 chance of using Islamic finance products more than those without preference, Religiosity has .006 likely of chance of influencing individual behaviour more than those that are not religious, while perceived benefits display .007 chance of being influenced by individual behaviour to use Islamic finance products. On the other hand, perceived government support did not show any positive sign of influencing individual behaviour. Attitude shows a prominent influence on influencing individual behaviour, the result shows that individuals with a positive attitude toward Islamic finance products are 30 times more likely to use them than those with a negative attitude, while intention also indicated .005 chance of influencing individual behaviour to use the products. Finally, Behavioural control and subjective norms both show .004 chance of increasing the individual's chance of using Islamic finance products.

This result supports the theory of planned behaviour by Ajzen (1991) and various findings from the literature which suggest a strong influence of individual perceptions toward performing a specific behaviour such as using Islamic finance products. For instance, studies such as Hsu et al. (2006); Mathieson (1991) and Zauro (2017) confirm the model applying various variables to the original theory of planned behaviour. Thus, this finding aligns hypothesis H_2 and validated the research model developed by this study.

7.8 Impact of Islamic Finance on Financial Inclusion: Mixed Data Sampling (MIDAS) Technique

7.9 Background

The literature suggested a positive relationship between Islamic finance and financial inclusion, especially, in the Muslim World and developing countries where financial exclusion is predominant, such as Nigeria (Demirguc-Kunt, Klapper and Randall, 2013). Islamic finance enhances savings, reduces credit constraints and thus, increases participation in formal financial systems (Gheeraert, 2014). Accordingly, it is an objective of this study to investigate the impact of Islamic finance on financial inclusion. Hence, this section investigates the impact of using Islamic finance (proxied by Islamic Banking deposits) on the financial inclusion rate in Nigeria. The adoption of Islamic banking deposits as a proxy to Islamic finance is explained in Chapter 5. Utilizing a Mixed Data Sampling (MIDAS) regression model analysis, the study establishes whether Islamic banking deposits and lagged values of financial inclusion significantly explain the variation in Financial inclusion rates in Nigeria.

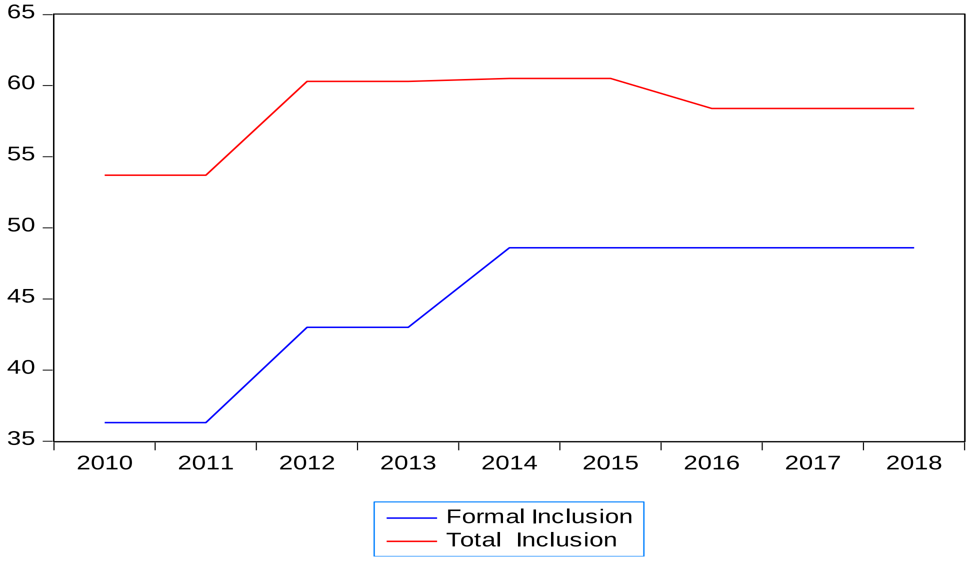
7.10 Data and Sources of Data

The time series data adopted for this section are both annual and monthly which covers the period from $t = 2010$ to $t = 2018$. The data are derived from Enhancing Financial Innovation and Access (Efina) Financial inclusion surveys (2010-2018) and Jaiz bank management accounts (2011-2018).

7.10.1 Financial Inclusion rate

This represents the number of Nigerians that are financially included. There have been significant gains in financial inclusion as the excluded population declined from 40.1 million to 36.6 million. Over 60% of the Nigerian adult population are now financially included but the financially excluded proportion of the adult population remains large (EFInA, 2018). To deal with missing data during the years there were no surveys, single imputation methods of last observation carried forward is used as the primary approach to the treatment of missing data. This method thus replaces every missing value with the last observed value whenever a value is missing.

Figure 7.1: Financial Inclusion Rate



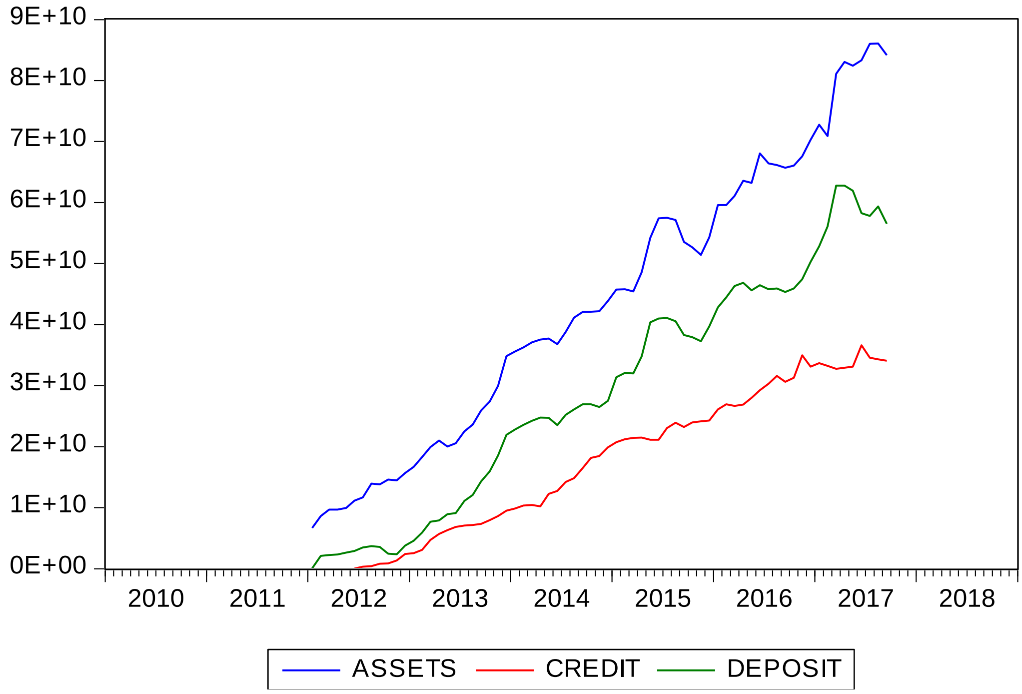
Source (EFInA)

Figure 7.1 presents the financial inclusion rate of Nigeria for the period 2010 to 2018, the figure presents a variable trend in the financial trajectory of the country.

7.10.2 Islamic Banking Deposit

Deposits of the Jaiz bank over the period 2011 to 2018 are used as a proxy for Islamic finance. The data for Islamic Banking deposits is stated in naira and reported in monthly frequency. The adoption of Islamic banking deposits as proxy to Islamic finance is informed by the literature as discussed in Chapter 5 section 5.12.3.1 of this study.

Figure 7.2: Jaiz Bank



Source (Jaiz Bank)

Figure 7.2 presents the trend of Jaiz bank total assets, credit and deposits over the period 2012 to 2018, where the bank witnessed a significant growth in all the three indicators as shown by the graph.

Table 7.15: Descriptive statistics

	Financial Inclusion(million)	**Islamic Banking Deposits(N,milion)**
Mean	53.97778	36,900,000,000
Median	56.3	38,100,000,000
Maximum	63	85,000,000,000
Minimum	45.5	78,676,254
Std. Dev.	5.60798	24,500,000,000
Skewness	-0.319482	0.14
Kurtosis	2.432969	1.90
Jarque-Bera	0.273675	4.54
Probability	0.872112	0.10
Observations	9	84

Source (EFInA/Jaiz Bank)

Looking at the variables with a bit more detail in Table 7.15, the descriptive statistics are examined. The mean Financial inclusion over the study period was 53.9 million with a maximum of 63 million Naira. Mean Islamic banking deposits are N36 million and a maximum of N85 million. Financial inclusion is negatively skewed with a kurtosis of 2.43. While Islamic banking is positively skewed with a kurtosis of 1.90. Jacques Bera test indicates the variable behaves normally and does not reject assumptions of Normality as $p>0.05$.

7.11 Empirical Framework for Examining the Impact of Islamic Finance on Financial Inclusion

Following contributions to the extant literature on mixed methods, this study applies mixed-data sampling (MIDAS) to explain the influence of Islamic finance (proxied by Islamic banking deposit) on financial inclusion using time series data. MIDAS regression model involves the use of a (time-series) variable that's measured at a lower frequency, as a function of current and lagged values of a variable that's measured at a higher frequency. So, in this case, we have a dependent variable Financial inclusion that is annual, and our regressor Islamic banking deposit are measured at a monthly frequency.

MIDAS regression model employs a general type of autoregressive-distributed lag model, in which high-frequency data are used to help in the prediction of a low-frequency variable. Technically speaking, the MIDAS models specifies conditional expectations as a distributed lag of regressors recorded at some higher sampling frequencies. Traditional approaches to time-series estimation and forecasting call for variables to be of the same frequency. This often causes a problem since most macroeconomic data is reported at different intervals and frequencies (Alper, Fendoglu & Saltoglu, 2008).

7.11.1 Model Specification

Following the approach of Ghysels *et al.* (2004) and Tay (2006), the study augments an annual AR(1) model for financial inclusion with monthly total deposits of Islamic banking using a nonparametric Mixed Data Sampling (MIDAS) setting. The following conventional predictive model for the Nigerian financial inclusion rate is specified as follows:

$$Finc = \beta_0 + \beta_1 Deposit + \varepsilon_t$$

Where FINC is financial inclusion rate at a given period *t* and Deposits is used as a proxy for Islamic banking while ε is the error term. Hence the number of financially included is a function of a constant, a lagged value of financial inclusion as well as the growth / deposits of Islamic banking.

Specifically, the model under consideration is:

$$y_t = X_t^{'}\beta + f(\{X_{t/S}^{H}\}, \theta\lambda) + \varepsilon_t$$

Where

- y_t is the dependent variable and represents the number of Nigerians financially included sampled at a low frequency and date.
- $X_t^{'}$ is the lagged dependent variable sampled at the same low frequency as the dependent variable
- $\{X_{t/S}^{H}\}$ is the proxy of Islamic banking sampled at a higher frequency value.
- f Is a function describing the effect of the higher frequency data in the lower frequency regression.
- β, θ *and* λ are Vectors of parameters to be estimated

A priori theoretical arguments allow us to specify the anticipated signs of some coefficients, for example:

$\beta_1 > 0$	Lagged value of financial inclusion is theoretically expected to increase the financial inclusion rate.
$\beta_2 > 0$	Increased Islamic banking deposit is theoretically expected to increase the financial inclusion rate.

7.12 Estimation: Traditional aggregation technique

To begin, the study first estimates a model using the traditional aggregation technique for dealing with different frequency regressors; a simple equation regressing financial inclusion against a constant, a single lag of financial inclusion and the aggregation of monthly size of Islamic banking deposit.

Table 7.16: Traditional OLS aggregation technique

Dependent Variable: LFINCL Sample (adjusted): 2012 2018					
Variable	Coefficient	Std. Error		t-Statistic	Prob.
C	5.918335	1.510678		3.917669	0.0173
LFINCL (-1)	-1.070847	0.585128		-1.830109	0.1412
ISLBAMONTHLY	0.099603	0.037016		2.690793	0.0546
R-squared	0.769628		Mean dependent var		4.031018
Adjusted R-squared	0.654441		S.D. dependent var		0.057729
S.E. of regression	0.033935		Akaike info criterion		-3.631196
Sum squared resid	0.004606		Schwarz criterion		-3.654378
Log likelihood	15.70919		Hannan-Quinn criter.		-3.917714
F-statistic	6.681598		Durbin-Watson stat		2.405020
Prob(F-statistic)	0.053071				

Source: (EFInA/Jaiz, 2018)

We can see from Table 7.16 that coefficient of Islamic banking exhibits the expected sign: $\beta 1 > 0$. However, the lagged financial inclusion rate exhibits a negative coefficient. The coefficient of Islamic banking is also statistically significant at the 10% level. The estimate of the constant is around 5.91, and the lag of financial inclusion is around -1.07, and insignificant at a 10% level. A unit change in Islamic banking assets is associated with a 0.09 increase in number of financially included and this relationship is statistically significant at the ten percent level. Consistent with hypothesis H_3 Islamic finance as (proxied by Islamic banking deposit) demonstrates a positive effect on financial inclusion in Nigeria.

The model has explanatory power: $R^2 = 0.76$ and Adj-R^2= 0.65. The Adjusted R-squared statistic ("Adj.Rsq") assesses the extent to which the models fits the observed values of the dependent variable. The maximum possible value for this statistic is 1.00 so the range of 0.65% in our models suggests that the model performs well in fitting the data. The Durbin-Watson statistic ("DW") assesses whether a problem known as "autocorrelation in the disturbances" is present. However, given we have a lag regressor we cannot use the DW. To test the model for serial autocorrelation, the Breusch-Godfrey test for serial correlation yields the following results:

Table 7.17: Breusch-Godfrey Serial Correlation LM Test

Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	10.96809	Prob. F(2,2)	0.0836
Obs*R-squared	6.415111	Prob. Chi-Square(2)	0.0405

Source: (EFInA/Jaiz, 2018)

p-values less than 0.05 suggest that we reject the null hypothesis of no serial correlation at 5% significance level.

7.12.1 Mixed-data sampling (MIDAS) technique (Beta Weighting)

In the second equation a MIDAS model is estimated with financial inclusion as the dependent variable, while Islamic banking and a lagged value of financial inclusion is employed as explanatory variables. The study makes use of an Almon/PDL lag weighted MIDAS regression. Monthly Islamic banking deposits with 6 lags are used as a set of higher frequency regressors. The results are presented in Table 7.18 below.

Table 7.18: MIDASPDL/Almon (polynomial degree: 3)

Dependent Variable: LFINCL				
Sample (adjusted): 2012 2018				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.599679	0.914917	6.120421	0.0257
LFINCL (-1)	-1.657265	0.492098	-3.367751	0.0780
Page: ISLBAMONTHLY Series: LDEP (-3) Lags: 6				
PDL01	0.013518	0.219842	0.061491	0.9566
PDL02	0.144908	0.156152	0.927992	0.4514
PDL03	-0.032043	0.022958	-1.395743	0.2976
R-squared	0.947879	Mean dependent var		4.031018
Adjusted R-squared	0.937455	S.D. dependent var		0.057729
S.E. of regression	0.014437	Akaike info criterion		-4.545893
Sum squared resid	0.001042	Schwarz criterion		-4.584529
Log likelihood	20.91063	Hannan-Quinn criter.		-5.023422
Durbin-Watson stat	2.929835			
ISLBAMONTHLY (-3)	Lag	Coefficient	Distribution	
	0	0.126383	*	
	1	0.175162	*	
	2	0.159855	*	
	3	0.080462	*	
	4	-0.063017	*	
	5	-0.270582	*	

Source: (EFInA/Jaiz, 2018)

The results are split into three sections; we have the annual coefficients at the top. The polynomial coefficients in the middle and the individual lag coefficients at the bottom.

The first section displays coefficients, standard errors, and t-statistics for the low frequency regressors. These results show standard regression output. We can see that the coefficient on the constant term is similar to our previous traditional aggregation estimation, and the coefficient on the lag of financial inclusion is also negative although marginally higher, and statistically significant at the 10% level. This suggests that previous values of financial inclusion rate have a negative influence on future values.

Looking at the Correlograms and Q-statistics, autocorrelation is within bounds, it is not significantly different from zero at (approximately) the 5% significance level. This suggests the model is correctly specified, the residuals from the model are nearly white noise. This means that there should be no serial correlation left in the residuals. If there is no serial correlation in the residuals, the autocorrelations and partial autocorrelations at all lags should be nearly zero, and all Q-statistics should be insignificant with large p-values.

The study next makes use of Beta weighted MIDAS regression. The results are presented in Table 7.19. The results from this estimation are similar to the previous albeit not statistically significant even at the ten percent significance level. The coefficient results for the common SLOPE coefficient is 0.20, suggesting monthly deposit of Islamic banking has an overall positive effect on Financial inclusion but this relationship is not statistically significant. Such result supported Hypothesis H_3. The coefficient, labeled BETA01, is 1 and significant, all other coefficients are statistically insignificant at 5% level.

Table 7.19: MIDAS Beta

Dependent Variable: LFINCL Sample (adjusted): 2012 2018				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.779788	2.307951	2.504294	0.2419
LFINCL (-1)	-1.699931	0.902737	-1.883086	0.3108
Page: ISLBAMONTHLY Series: LDEP(-3) Lags: 6				
SLOPE	0.207903	0.082072	2.533165	0.2394
BETA01	1.001691	0.065981	15.18152	0.0419
BETA02	1.280653	2.222079	0.576331	0.6672
BETA03	-0.149034	0.014103	-10.56783	0.0601
R-squared	0.944644	Mean dependent var		4.031018
Adjusted R-squared	0.933573	S.D. dependent var		0.057729
S.E. of regression	0.014879	Akaike info criterion		-4.199967
Sum squared resid	0.001107	Schwarz criterion		-4.246330
Log likelihood	20.69989	Hannan-Quinn criter.		-4.773002
Durbin-Watson stat	3.050434			
ISLBAMONTHLY (-3)	Lag	Coefficient	Distribution	
	0	0.152483	*	
	1	0.150526	*	
	2	0.116613	*	
	3	0.072819	*	
	4	0.008318	*	
	5	-0.292856	*	

Source: (EFInA/Jaiz, 2018)

The fourth model use a Step weighted MIDAS regression and is presented in table 7.20. The diagnostic statistics do not reveal any major reason for not trusting the model's results. Most estimated coefficients for the level of Islamic banking deposits have their theoretically anticipated signs, also suggesting that the model performs well. Islamic banking has an overall positive effect on Financial inclusion as the SLOPE coefficient is 0.2 however it is not statistically significant. The coefficient on the lagged financial inclusion variable does not have the sign predicted.

Table 7.20: MIDAS Step Dependent Variable: LFINCL Sample (adjusted): 2012 2018

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.617544	1.145390	4.904484	0.0162
LFINCL (-1)	-1.569139	0.643953	-2.436730	0.0928
Page: ISLBAMONTHLY Series: LDEP (-3) Lags: 6				
STEP01	0.155041	0.092974	1.667568	0.1940
STEP02	-0.090609	0.071671	-1.264220	0.2954
R-squared	0.869267	Mean dependent var		4.031018
Adjusted R-squared	0.843121	S.D. dependent var		0.057729
S.E. of regression	0.022865	Akaike info criterion		-3.912025
Sum squared resid	0.002614	Schwarz criterion		-3.942934
Log likelihood	17.69209	Hannan-Quinn criter.		-4.294048
Durbin-Watson stat	2.594154			
ISLBAMONTHLY (-3)	Lag	Coefficient	Distribution	
	0	0.155041	*	
	1	0.155041	*	
	2	0.155041	*	
	3	-0.090609	*	
	4	-0.090609	*	
	5	-0.090609	*	

Source: (EFInA/Jaiz, 2018)

7.13 Empirical Findings

The finding of this empirical section suggested a positive relationship between Islamic finance and financial inclusion but revealed an insignificant impact in promoting overall financial inclusion in Nigeria. Therefore, Hypothesis H_3 is supported. This supports the findings of Suseno & Fitriyani (2018) who found that there is no significant impact of Islamic finance development indicated by the availability of banking services, Banking penetration and use of banking services in enhancing financial inclusion in Islamic banking countries in which Nigeria is included. The study is also consistent with the finding of Mustafa et al. (2018) who found insignificant impact of Islamic finance on financial inclusion.

However, the finding is consistent with Demirguc-kunt et al. (2013) whose study revealed little use of Islamic banking products in Middle Eastern and North African Countries. This might be related to the infant nature of Islamic financial system in the Country and the World at large as suggested by Zulkhibri (2016). Furthermore, the study by Naceur et al. (2015) on the impact of Islamic banking on financial inclusion in OIC Countries revealed a weak and tentative role of Islamic banking on financial inclusion.

7.14 Discussion

The impact of using Islamic financial products in promoting financial inclusion in Nigeria has been investigated by examining the determinants of financial inclusion, the influence of individual perceptions on the use of Islamic financial products and the impact of Islamic finance as proxied by Islamic banking deposit. According to the findings of this study, financial inclusion in Nigeria is determined by the four individual attributes, gender, age, education and income. These attributes significantly influence an individual's access to financial services in Nigeria. For instance, being male, highly educated with a high income increases the chance of being financially included in Nigeria. In comparison, age has a non-linear relationship whereby the greater an individual's age, the higher their propensity for financial inclusion, although the likelihood decreases as they attain a certain age. However, with the exception of education, these attributes demonstrated a similar effect on the use of Islamic financial products. Thus, it is suggested that individuals with a high level of education are less likely to use Islamic financial products in Nigeria. These findings aligned with those of other studies, which suggested the changing impact of individual attributes on financial inclusion (Chithra & Selvam, 2013; Fungacova & Weill, 2014; Zins & Weill, 2016; Uddin et al.2017). Hence, it is evident that individual attributes influence their determination to use financial services, including Islamic financial products; therefore, hypotheses H_{1a} and

H_{1b} are supported. However, the findings also highlight that individuals with higher educational attainment are less likely use Islamic finance products. Educated individuals, who are mostly working class and entrepreneurs in contemporary societies, dominate the need for financial services, which suggests that the potential for Islamic finance to enhance financial inclusion (as indicated by various studies) is compromised in Nigeria.

In addition, the findings revealed a high level of intention, preference, awareness and access among the individuals, which was associated with a positive attitude toward Islamic financial products. Moreover, the majority of respondents were found to have the required resources to use Islamic financial products. However, consistent with the theoretical model developed by this study (shown in Figure 3.5), these individual perceptions positively influence their use of Islamic financial products. Hence, hypothesis H_2 is supported and the theoretical model is confirmed.

Given that Islamic finance is relatively new in Nigeria with only one fully pledged operational Islamic bank, Islamic finance assets are dominated by the Islamic banking industry in the country. This study uses Islamic banking deposits as a proxy for Islamic finance in order to investigate the impact of Islamic finance in promoting financial inclusion in Nigeria. The finding revealed that the use of Islamic finance in Nigeria has a positive relationship with financial inclusion, but the relationship is not significantly influencing the overall level of financial inclusion in the country. Such result aligns with Hypothesis H_3. This finding perhaps related to Islamic finance's infant stage of development in Nigeria. However, as the results indicated a high level of awareness, access, preference, intention and positive attitude among the individuals towards the use of Islamic financial products, Islamic finance offers a promising potential to promote financial inclusion in Nigeria. Further to the findings from the previous chapter, this chapter provided answers to research question three and responded to research question four.

7.15 Conclusion

The influence of four individual attributes - gender, age, income and education - have been investigated to gauge how each determines access to financial services (financial inclusion), as denoted by formal accounts, savings and access to credit with financial institutions. The four attributes were also used to explain their influence on the use of IFPs, and the findings revealed that all four-influence financial inclusion. In other words, being a male with a higher income and educational attainment increases the chances of being financially included. However, age has a diminishing effect over the longer term. Nevertheless, all three attributes indicated similar effects on the use of Islamic finance products, with the exception of education, which suggested that higher educational attainment means it is less likely that IFPs would be used. Hence, individuals with higher educational attainment do not often use IFPs in Nigeria.

The results revealed that all factors influence the individual's use of Islamic finance products, as derived from the conceptual model; with the exception of perceived Government support, this have a negative influence on an individual's inclination to use IFPs. In other words, perceived government support does not influence individual behavior to use IFPs in Nigeria. The empirical evidence suggested that the use of Islamic finance products is positively associated with financial inclusion, but this has no significant impact on overall financial inclusion within Nigeria. This means that the introduction of Islamic finance in Nigeria has not significantly influenced financial inclusion within Nigeria.

Chapter Eight

Evaluation of the Compliance to the Islamic Finance Principles by Regulators and Operators in Nigeria

Chapter 8

Evaluation of the Compliance with Islamic Finance Principles by Regulators and Operators in Nigeria

8.1 Introduction

This chapter presents the interview findings with relevant Islamic finance and financial inclusion stakeholders from the supply side (Regulators and Operators) and experts. Accordingly, the study identified themes based on the research questions; these themes were explained by interviewees, namely by regulators, operators and experts. Participants were selected due to their expertise and rank from all involved sectors. One important organization was chosen from each supply side sector. For instance, from the regulatory side, the Central Bank of Nigeria was chosen as the apex regulatory authority for financial institutions in Nigeria. From the operator side, *Jaiz* Bank was chosen; *Jaiz* Bank is the maiden and only fully pledged operational Islamic bank in Nigeria and has the highest branch penetration in the Northern region where financial exclusion is predominant. Finally, the experts were high-ranking professors from the maiden and only International Islamic Finance Institute in Nigeria, in which postgraduate courses on Islamic finance are offered. Therefore, this chapter provided answers to the research questions, as stated in Chapter 1. Accordingly, the data was interpreted according to the code given to each participant as discussed in Chapter 5.

To find answers to the research questions, data were generated from the interviewees, namely: Experts R1, R2, R3, R4; Regulators R5, R6, R7 and R8, and Operators R9, R10, R11, and R12. In interviewing key players in Islamic finance systems and in financial inclusion in Nigeria, the purpose of the interviews was to gain insights from these key stakeholders to help interpret the results and corroborate other findings. The participants were interviewed based on the themes identified by the study, which needed clarification from the participants. The following themes were generated accordingly:

a) Implications of *Shariah* Principles on financial inclusion.

b) Compliance level to *Shariah* principles by regulators and operators.
c) Nigeria's financial inclusion initiatives and its *Shariah* compliant components.
d) The level of awareness amongst adults and their attitudes and preferences toward the use of existing Islamic finance products in Nigeria.
e) Islamic financial products and services employed by operators in Nigeria.
f) Impact of the *Shariah* compliance and the use of Islamic Finance Products on financial inclusion in Nigerian.

8.2 Presentation and Analysis of the Interview Findings on the Perceptions of Islamic Finance Regulators, Operators and Experts

This section presents the responses of the 12 interviewees to the established qualitative results. The interviewees responded to all the questions raised, and answers to the qualitative questions were tabulated to determine themes. The major qualitative findings are re-arranged and restated below**.**

8.2.1 Implications of *Shariah* Principles on Financial Inclusion

Shariah principles provide clear guidelines upon which Islamic financial services operate. They promote equity and fairness in wealth distribution, thereby creating an enabling environment for all individuals to invest, deposit and obtain returns on investment. The literature on Islamic finance demonstrates the correlation between *Maqasid Shariah* (*Shariah* objectives) and financial inclusion. *Shariah* itself is for the benefit of individuals and community, and its laws are designed to protect these benefits and facilitate the improvement and perfection of human life (Mohieldin, 2012).

Islamic finance promotes financial inclusion through social justice. Social justice is an important Islamic doctrine that gives equal rights to financial and natural resources; moreover, it establishes and organizes human relationships in a society of individuals. Justice and equity in wealth distribution is a primary concern of *Sharia*, and this objective is attainable when Islamic financial institutions comply with *Sharia* principles, which promote financial inclusion.

Experts, R1, R2 and R3; Regulator R5, and Operators R9 and R10 identified the implications of *Shariah* principles on financial inclusion. Based on the findings, *Shariah* principles have a positive relationship with financial inclusion; this is based on Islamic financial institutions leading the way toward wider financial inclusion in society. One area in which *Sharia* has made an impact is as a *risk-sharing* instrument, enabling individuals and SMEs access to financial resources in order to expand their business, which thereby expands the opportunities for financial inclusion amongst lower income earners. Experts R1, R2, R3 and regulator R5, who are experts in the area of Islamic Finance, have unanimously agreed that Islamic financial institutions help small and medium scale enterprises to access finance through various instruments, such as *musharaka* and *Mudarabah*. These improve access to greater financial resources for business and assist SMEs to instil financial discipline in their businesses in order to reduce the risk of closure.

This finding revealed that Islamic finance could solve the financing constraints of SMEs by providing financial instruments based on risk sharing. Another area of impact of *Sharia* principles on financial inclusion is the area of record keeping. Sharia principles encourage accountability and prudence in financial transactions. Accountability and prudence are fundamental in financial record-keeping and, more widely, in the redistribution of resources through corporate social responsibility. *Sharia* principles enable financial institutions to provide equal opportunities irrespective of belief systems, and open access to financial resources for the community. An expert in Islamic Finance (R1) stated that the implication of *Sharia* principles on inclusion promotes a record keeping culture that forms the basis for financial prudence. R1 mentioned that a culture of proper record keeping encourages individuals to have an account that is sharia compliant. Another expert in Islamic Finance (R2) sees the implications for *Sharia* principles on financial inclusion from another perspective, namely from the level of the individual. The expert argued that the influence of Islamic financial products at the level of the individual provides access to a basic account, micro financing and risk management.

Besides experts in Islamic Finance, the operators identified the impact of *Sharia* principles on financial inclusion. One operator of an Islamic Financial Institution (R9) argued that *Sharia* principles enable financial institutions to develop various measures that promote financial inclusion for different calibres of individual by financing viable projects that undermine the use of collateral, and the payment of exploitative interest by borrowing funds to finance businesses. This finding supported the assertion from the literature that the Islamic finance concept of profit and loss sharing which advocates that the financier and the borrower must share the outcome of their investment (profit or loss); moreover, the concept of socially responsible investment emphasizes that it should not be centered on harmful activities, hence it encourages investment in economically viable activities (Iqbal & Molyneux, 2005).

However, the regulators clearly identified the impact of *Sharia* principles on financial inclusion. Sharia principles facilitate regulators to develop a legal framework that enable Islamic Financial Institutions to be creative in creating initiatives that increase access to financial resources to larger populations, especially amongst the poor. One of the regulators (R6) stated that Sharia principles have made an impact by enabling Islamic Financial Institutions (IFIs) to develop various instruments in the areas of agriculture, infrastructure and risk management by creating products, such as *Salam* product, Takaful and micro Takaful, and *Sukuk*.

From the aforementioned, it could be observed that *Sharia* principles have an impact on financial inclusion as they create opportunities for financial access amongst all categories of individual, and simultaneously enable Islamic financial institutions to help small and medium scale enterprises through risk sharing instruments. They therefore enjoy *Sharia* compliant services for wider access to more financial resources for their business.

Islamic Financial Institutions (IFIs) are the financial intermediaries just like their counterparts, namely the conventional banks. However, what make them different from conventional banks is their adherence to the four major principles: (1) prohibition of interest charges which remain the source of exploitation; (2) prohibition of speculation that aids risky business ventures; (3) prohibition of financing *Haram* (unlawful) activities, and (4) a mandatory donation of a portion of profits to the society in the form of *Zakat*.

Islamic finance remains an alternative financial system; it continues to be effective and a viable tool for providing financial services and development globally. The development of Islamic finance has made it an integral part of the global financial system with the potential to solve the problems of poverty and low economic growth through financial inclusion, especially in low-income countries. Some of the ways that Islamic Financial Institutions

(IFIs) promote financial inclusion include: (1) providing access to financial services that stimulate financial autonomy and self-development of poor households and small enterprises; (2) providing easy access to financial resources which is considered a major step in connecting poor sections of society.

8.2.2 Compliance level to Shariah principles by the Regulators and Operators

This theme involves the level of compliance met by the regulators and operators; Experts (R1, R2, and R3), operators (R9, R10, R11, and R12) and a regulator (R7) were involved. The findings revealed that financial institutions have standing committees that are have the responsibility for implementing Sharia principles in the operation of Islamic Financial Institutions based on Sharia principles. The committee usually contains experts from various professions and advise the board on products and services to ensure total compliance. This committee makes enormous efforts to ensure that products, services and all other transactions comply with Sharia principles from *Riba* (usury), *Maysir*, *Gharar* and other prohibited activities related to a conventional financial system. Islamic finance is expected not only to avoid interest-based transactions, which are prohibited in Islamic law (*Shariah*), but also to avoid unethical practices and participate actively to achieve the goals and objectives of an Islamic economy.

In addition, the findings of the study indicate that Islamic Financial Institutions (IFIs) have auditing units which have the responsibility for auditing all transaction to ensure compliance with Sharia based on the Sharia framework provided by the regulators. Compliance with Shariah principles is an integral feature in Islamic finance, therefore an effective and conducive framework must be provided. The auditing unit works in line with the implemented *Shariah* framework, which has the mandate of regular supervision to ensure compliance. *Shariah* framework harmonizes *Shariah* interpretations, strengthens the regulatory and supervisory oversight of institutions, and fosters and cherishes a pool of competent *Sharia* advisers.

The finding also demonstrates that *Sharia* advisory boards must contains experts in both Islamic and conventional systems of finance as conditions for the survival of Islamic financial institutions. Islamic finance is consistent with Islamic law (*Shariah*) and is carried out in accordance with Islamic rules on transactions. The findings show that Islamic financial institutions have adequate arrangements towards compliance with *Sharia* principles. An expert in Islamic finance (R1) and a regulator (R6) expressed a viewpoint about the level of compliance amongst regulators whereas R2 and R3 were more operators.

An expert in Islamic finance (R1) is of the view that the central bank stipulates that there must be a *Sharia* compliance committee of experts in terms of the deployment and operation of Islamic financial institutions; moreover, there must be an auditing unit that audits transactions over time in terms of their compliance with the *Sharia* regulations and the attainment of overall *Maqasid Sharia.* He further mentioned that Islamic finance institutions should reserve a unit in charge of the items, or the principles of *Maqasid Sharia* that protects property, lives well and protects the wealth of people, and so on. In all their operations they comply, they have internal checks, and they have regulators overseeing or checking their operations. The expert (R1) finally concludes that, as far as compliance to *Sharia* or the operations are concerned, the operations of Islamic financial institutions in Nigeria are in line with *Maqasid Sharia*.

Similarly, another expert in Islamic finance (R2) revealed that there is a high level of compliance to the principle of Sharia. The expert argued that conventional, interest-bearing financial institutions mostly dominate Nigeria’s financial system. Therefore, there are some functions that may not allow complete compliance with *Maqasid Sharia*, but Islamic financial institutions are making tremendous efforts to comply with *Shariah* principles. In addition, another expert (R3) also mentioned that financial institutions (particularly *Ja’iz* Bank) are making efforts in various sectors to ensure that they comply with Sharia. They have a very strong team that advises them based on a Sharia advisory committee. Scholars, like Professor Manzur Khahaf and Professor Muhammad Bashir Lawan, are experts in Islamic finance, and are conversant with conventional as well as Islamic finance. They guide Islamic financial institutions on their products and try to ensure that they conform with *Sharia* as the principles that guide the implementation of perfections of wealth, health, life and all other inputs.

On the side of the operators, respondents (R9, R10, R11 and R12) mentioned that relevant authorities monitor products, services and processes, based on the regulatory framework provided by relevant bodies. Regarding the level of compliance on the side of regulators, an official from the Central Bank of Nigeria (CBN) (R5) mentioned that there is a standing

Financial Regulation Advisory Committee of Experts (FREACE). This is a body of *Sharia* compliance who make up a well-qualified team; R5 stated,

> "we have about six members; I am No, 2. We have a chairman who is highly qualified, and he is well known all over the world. Now we sit down and look at the products; when organizations want to establish or run a *Shariah* compliant product, they have to come to us for approval. So, we look at them from Islamic perspectives; the Sharia compliance is still met and then we approve and advise the CBN Governor through financial policy and regulation department".

He further mentioned several guidelines on financial regulation for Islamic finance and these guides depend on what information is available or any issues that require the set-up of guidelines.

The findings demonstrate that both regulators and operators are putting enormous efforts into ensuring *Sharia* governance, thereby leading to total compliance with *Sharia* principles in their regulatory and supervisory roles. In centralized practices, a central *Sharia* supervisory board (regulator) is liable for all *Shariah* compliance matters and validates the Islamic financial products. The aim of the central *Shariah* supervisory board is to reduce differences where there are conflicts, to ensure the harmonization and uniformity of *Shariah* implementation within practice, and to promote good governance within the industry.

The findings revealed that compliance by Islamic financial institutions to Islamic principles is enabled through *Sharia* Advisory Boards, which are domiciled in every financial institution. The duty of the *Sharia* Advisory Board is to monitor and regulate the ongoing activities of Islamic financial institutions in accordance with Islamic laws and jurisdictions. However, the findings also demonstrate that Islamic Financial Institutions enjoy value in Islamic corporate governance based on the four principles that comprise: (1) the principle of *tawhid*, which emanates from the concept of viceregency (*Khilafah*), faith (*Amanah*), and fairness (*aladl wal Ihsan*) through the harmony of knowledge using collaborative, integrative, and evolutional procedures to the interrelating environment features; (2) the principles of justice; (3) the principles of productive arrangement of properties in society, and (4) the principles of monetary accomplishments and recursive intention. The principles are checked in accordance with the rules of *Shariah*, as derived from the *Al-Quran* and *Sunnah*, as the key elements of Islamic corporate governance. This maintains the principles of social justice and makes Islamic institutions market driven.

8.2.3 Nigerian Financial Inclusion Initiatives and Shariah Compliance

The Central Bank of Nigeria introduced various economic empowerment initiatives including: the Agricultural Credit Guarantee Scheme Fund (ACGSF); the Small and Medium Enterprises Restructuring and Refinancing Facility (SMERRF); the Textile Sector Intervention Fund (TSIF); the Power and Airline Intervention Fund (PAIF); the Nigeria Electricity Market Stabilisation Facility (NEMSF); Non-oil Export Stimulation Facility (NESF); Export Development Facility (EDF); Anchor Borrowers' Programme (ABP), and Commercial Agriculture Credit Scheme (CACS).

The finding of this study reveals that, out of all these Government economic initiatives, only the Commercial Agriculture Credit Scheme (CACS) has a *Shariah* component facility, whilst the rest are interest based. Regulator R6 clarified that there is approval from the Federal Government to consider a non-interest facility in some or all the Government economic support initiatives. However, the Central Bank demonstrated little interest in applying *Shariah* compliant facilities to their initiatives, hence, only the Commercial Agriculture Credit Scheme is *Shariah* compliant.

However, this supports another assertion from expert R3, who stated that, if they are ready to enhance financial inclusion in the country, *Shariah* compliant products should be included within the recently established National Micro Finance Bank and Anchor borrowers' program. This was primarily developed to promote financial inclusion among the less privileged segments of society. The failure to do is an indication of a lack of political will on the side of the Central Bank of Nigeria.

The finding demonstrates that there is little effort on the side of CBN to promote financial inclusion through *Shariah* compliant economic empowerment schemes. However, Nigerian regulatory authorities provide robust Islamic financial regulatory frameworks, and legislation and *Shariah* guidelines in order to preserve the sanctity of *Shariah*-compliant transactions and boost public confidence in the sector. For instance, in an effort to guarantee depositor and investor funds, the Central Bank recently increased the reserve ratio of Islamic micro finance banks (CBN, 2018). The industry has been progressing significantly to emerge as a valuable sector that caters for the diverse financial and investment needs of various individuals and corporate entities. Regulator R9 stated that the Federal Government is one of the beneficiaries of *Shariah* compliant products, namely *Sukuk*, which is used as a means of financing infrastructural projects. The product was overwhelmingly accepted, which lead to over subscription.

8.2.4 Islamic Financial Products and Services Employed by Operators in Nigeria

Theoretical postulations show that a number of stages are passed before a product becomes accepted. The stages include awareness, interest, evaluation and experience (Muda & Jalil, 2007). It is clear that Islamic finance and its associated products are relatively new compared with their counterparts in conventional finance. Islamic finance provides banking services, mortgage financing and investment based on Islamic ideals and principles, which are generally unknown to Non-Muslim Nigerians. Therefore, the level of awareness and understanding of the Islamic financial system could be a predictor of its acceptance and adoption among Nigerians.

Experts (R1, R2 and R3) and operators (R9, R10, R11 and R12) responded to the themes generated on the products and services. The findings involving the products and service provided by operators revealed that several products are available, including: (1) *Murabaha,* (2) *Mudarba,* (3) *Musharaka,* (4) Microfinancing, (5) *Ijara,* (6) *Istisna,* and (7) *Salam*. The findings also revealed that several products and services are readily available in Islamic finance systems in Nigeria and accord with *Shariah* principles. The number of products and services enable customers to choose a product that satisfies their need in order to meet financial obligations. One key element of the entire product is that they are all interest free products. An expert in Islamic finance (R1) declared that he attended a conference where zero-interest or non-interest banks were mentioned. Some participants questioned how a bank could operate when there is no interest. The response was that it operates because there are financial products that are developed in line with the *sharia*, involving a form of partnership, joint venture, leasing and other types of contract that allow the bank to make profit.

Another expert in Islamic finance (R2) stated that some scholars confirm some products strictly comply with *Sharia*, like *Mudaraba,* while other products are not completely Islamic.

They state that, ironically, the latter are the most subscribed products within Islamic banking; moreover, many people subscribed to *Murabaha* more than the *Mudaraba*, or *Mushraka* system of Islamic banking. So, the bank sells *Murabaha* because it is more profitable, and selected by more people. However, they state that the majority have confidence in Islamic financial products. Similarly, expert (R2) further states that people have confidence in the products to which they subscribe; moreover, some products strictly comply with the *Sharia*. Similarly, expert R3 argued that Islamic Micro finance offers Islamic financial services but is not fully comparable with the activities of *Jaiz* Bank. Nevertheless, they are trying to develop Islamic finance; "I know in Bauchi, there is one Islamic micro finance bank *Al-Darkat"*. The findings indicate that the standing *Sharia* framework regulates product and services, and various regulatory bodies provide relevant guidelines. The finding depicts that the future of Islamic finance in Nigeria is bright, as Islamic banking business emerges progressively as result of the provision of guidelines and regulations, such as Banks and Other Financial Act (BOFIA) 1991 (which provided the ground for the establishment of Islamic banking in Nigeria) and the latest non-interest banking guidelines released by the Central Bank of Nigeria (which led to the granting of banking license and the establishment of Jaiz International Bank which is the country's first Islamic bank).

8.2.5 Levels of Awareness, Attitudes and Preferences toward the use of existing Islamic Finance Products in Nigeria

Experts R1, R2 and R3 responded to this theme. The findings from the theme revealed mixed reactions about the levels of awareness, attitudes and preferences for the use of existing Islamic finance products in Nigeria. The level of awareness and attitudes vary among the populace, although some, especially non-Muslims, are aware but are sceptical. However, Islamic financial institutions continue to receive and operate for both Muslims and non-Muslims. An expert in the area of Islamic finance (R1) mentioned that large sections of the Nigerian population, especially non-Muslim, are sceptical, and expressed fears about the 'Islamization' of the Nigerian financial system. Nigeria has been introducing licenses to Islamic banks and the evidence shows that, despite fears over the operation of Islamic financial institutions, both Muslims and non-Muslims have been patronising the financial services of these banks.

Expert (R1) further mentioned that people initially expressed fear but then gradually came to accept the services. The development processes have shifted from the stage of fear to the stage of acceptance.

> "The argument against the bank has faded and that even, as I have said, the branches of *Jaiz* Bank have been opened in Port-Harcourt, which is predominantly Non-Muslim territory. So, it is just like that and even the Nigerian State itself, have had some grey *Sukuk*, which was launched some years back by a state in Nigeria, Osun State" (R1).

Another expert (R2) mentioned the new *Sukuk* offered by the Federal Government; the second (most recent) totalled 100 billion naira and has also been over-subscribed. The literature suggests that, in practice, wherever Islamic finance is offered there may be initial fears, but over time it will be generally accepted as investors, both Muslim and non-Muslim start to patronize these particular *Sukuk*.

The expert (R2) restated that Nigerians have a positive attitude towards Islamic products and mentioned *Mudaraba*, which some people indicated was not complete in the scope of the literature. However, they believe that, if Islamic financial products are purely accepted by Nigerians. The majority have some confidence in Islamic financial products. Of course, you know the people that have confidence in it subscribe to the products. Moreover, (R3) declared that,

> "some people are sceptical based on their religious orientation. If you look at this critically, those that are really business minded, particularly among the Igbo Communities, most of them are not Muslims but they are patronizing the Islamic financial institutions because they know they are getting what they want, in terms of their prosperity in terms of their business. The Islamic financial institutions operating in Nigeria need to find the way whereby they could propagate and show the importance particularly of the economic aspects, not emphasizing the religious aspect. That Islamic finance is like any other business activity, the only thing is it is based on ethics. Rules and regulations should not

be violated, all things being equal, so that they can compete with any other banking activity or financial intermediation".

The awareness and preference for Islamic finance products has increased as large numbers of Nigerians have subscribed to the *Sukuk* offered by the Federal Government. Recently, the second batch of *Sukuk* issued by Federal Government of Nigeria was oversubscribed. This clearly shows that the Nigerian population are aware of Islamic products and have positive attitudes and preferences towards the products. Moreover, R1 argued that misconceptions are gradually changing based on existing evidence.

8.2.6 Impact of *Shariah* Compliance and the use of IFP on Nigerian Financial Inclusion

To determine the effect of using IFPs and the compliance by regulators and operators on financial inclusion; this theme measured the perceptions of regulators by experts to confirm whether there is any impact on financial inclusion in Nigeria. Accordingly, the regulator respondents were purposely extracted from the financial inclusion unit of the Central Bank of Nigeria, who are responsible for the formulation and monitoring of the financial inclusion framework. Furthermore, another regulator, who is the special adviser to the Central Bank Governor on Islamic finance, was interviewed to corroborate this idea.

Regulator R5 mentioned that most of the achievements recorded on financial inclusion are from the Northern Nigeria where financial exclusion is mostly due to religious reasons, and we recorded significant acceptance of IFPs in the area. However, this assertion is further substantiated by the perception of regulator R6 who declared that, since the inception of Islamic finance in Nigeria, our financial inclusion rate increased at the National level and financial exclusion rates reduced, with the highest proportion coming from the Northern region where IFPs have penetrated. Experts, who are professionals in Islamic finance, support these findings; indeed, R1 mentioned that the introduction of Islamic finance slightly reduces exclusion rates.

This opinion and other empirical findings indicated a slight impact from the recent introduction of Islamic finance to financial inclusion. Therefore, it can be argued that the finding substantiates the proposition from the literature presented in Chapters 2 and 3, which suggested a positive association between Islamic finance and financial inclusion.

8.3 Discussion

Compliance with the principles of Islamic finance by regulators and operators and its consequence effect on financial inclusion was investigated. This was achieved by exploring the relationship between *Shariah* principles and financial inclusion, and the Islamic finance regulatory frameworks developed by regulators alongside the products and services offered by Islamic financial institutions in Nigeria.

The qualitative findings revealed that Islamic principles have a positive effect on financial inclusion. The Islamic principles provide guidelines through which financial services are offered in line with *Maqasid Sharia*. *Sharia* principles emphasise that financial institutions provide risk sharing financial instruments to create greater access to financial resources and thus enable wider financial inclusion in the economy.

In terms of compliance with *Sharia* principles by the operators of Islamic Financial Institutions (IFIs), the finding indicates the extent to which IFIs comply with guidelines that are established based on Islamic principles. These Islamic principles serve as guide to the operators of Islamic Financial systems. The operators receive guidelines from the regulator, which usually sets up various committees in charge of product development and assessment to ensure the product's total compliance with the Islamic principles. This indicates whether IFIs have the responsibility to ensure that all transactions comply with *Sharia* principles, based on the *Sharia* framework provided by regulators forming an integral feature in Islamic finance.

The finding further revealed that regulators ensure that the advisory board of Islamic Financial Institutions contains experts in both conventional and Islamic financial systems in order to ensure products and services align with *Maqasid Sharia*. As the regulator, the Central Bank of Nigeria (CBN) ensure total compliance, as established by the Financial Regulation Advisory Committee of Experts (FRACE). This is a body for *Sharia* compliance that constitutes well-qualified members. The main function of the committee is to make recommendations to the Central Bank of Nigeria CBN governor through financial policy and regulation department upon approval of products and services that meet the Islamic Financial System requirements.

The finding involving *Shariah* compliant economic empowerment initiatives by the Nigerian government revealed that several programmes have been introduced in Nigeria. However, the majority of programmes are not *Shariah* compliant with the exception of the Commercial Agriculture Credit Scheme (CACS) whose component meets with *Sharia* compliance requirements. This indicates that little effort is being made to promote financial inclusion through *Shariah* compliant economic empowerment schemes. Nevertheless, robust Islamic financial regulatory frameworks, legislation and *Shariah* guidelines have been implemented in order to preserve the sanctity of *Shariah*-compliant transactions and to enhance public confidence.

The finding of the study shows that a number of *Shariah* compliant products are readily available in Islamic financial institutions in Nigeria. These products and services are readily available and in accordance with *Shariah* principles. Customers can choose from a range of products that satisfy their need in order to meet their financial obligations, and all products are interest free. The qualitative finding presented in this chapter provided an extensive answer to research question five, as presented in Chapter 1.

8.4 Conclusion

The qualitative findings indicate that compliance with *Shariah* principles and the use of Islamic financial products influence financial inclusion. However, findings from the quantitative analysis explain the magnitude to which the uses of Islamic financial products influence financial inclusion. The findings revealed that the use of Islamic financial products is not sufficiently significant to make a substantial impact on financial inclusion in the country.

Therefore, by combining both findings, it is evident that compliance with *Shariah* principles by Islamic financial institutions and regulators, as well as the use of Islamic financial products by individuals does not significantly influence the level of financial inclusion. This indicates that the influence is minimal, suggesting that more needs to be done in order to improve financial inclusion through the use of Islamic financial institutions. The finding also revealed an appreciable compliance with *Shariah* principles by both regulators and operators.

Chapter Nine

Summary and Conclusion

Chapter 9

Summary and Conclusion

9.1 Introduction

This chapter provides a summary of the research findings and highlights each objective and the associated finding. Furthermore, the research implications, taking into consideration the empirical, theoretical and practical implications are presented, whilst the research limitations and suggestions for future research are also outlined. The chapter and thesis close with a general conclusion of the study.

9.2 Summary of the Research

The main aim of this study is to evaluate the impact of Islamic finance on promoting financial inclusion in Nigeria, by examining compliance with Islamic financial principles as dictated by the axiomatic principles of Islam and the use of Islamic finance products in Nigeria. In this regard, the study explores the theories on the principles of Islamic finance and financial inclusion in order to establish a basis for the proposition that Islamic finance promotes financial inclusion. Determinants of financial inclusion are also investigated to identify the individual attributes that influence financial inclusion; moreover, based on the conceptual framework developed in the study, individual awareness, access and the perceptions of Islamic finance products are examined to identify their influence on the use of Islamic financial products. The study further examined the overall impact of Islamic finance (proxied by Islamic banking deposit) on enhancing financial inclusion in Nigeria. Finally, the study evaluates the perceptions of key stakeholders (involving Islamic finance regulators, operators and experts) on compliance with Islamic finance principles. Moreover, the awareness of stakeholders and government support for the sector were also measured to corroborate other findings. Accordingly, Stakeholder Theory was considered and adopted to hold regulators and operators responsible for the implementation of a conducive legal environment in line with Islamic finance principles and *Shariah* compliant products and services. Moreover, the Theory of Planned Behavior (TPB) was used to examine the influence of the perceptions of adults on the use of Islamic finance products (IFPs). The study further used *Jaiz* bank deposits as a proxy for Islamic finance to examine the impact of IFPs on financial inclusion. Questionnaires were administered to gather information from the adult population to measure their usage and the perceptions of Islamic financial products.

This study also used secondary data from the Global Findex to examine the determinants of financial inclusion in Nigeria and data from *Jaiz* Bank and EFInA. The study further conducted semi-structured interviews with supply side stakeholders (including regulators, operators and expert in Islamic finance) to measure their perceptions and corroborate the findings.

9.3 Summary of the Findings

This study revealed – empirically and theoretically – that compliance with Islamic finance principles and the use of Islamic finance products (IFPs) has a positive relationship with financial inclusion by enabling Islamic financial institutions to employ products and services that align with M*aqasid Shariah* (objectives of *Shariah*). Thus, economic and financial transactions are centered on promoting social justice and harmony, interdependence and the redistribution of resources among the higher and lower classes in the society, through Islamic finance practices such as risk sharing. Moreover, the examination of perceptions showed that the perceptions of individuals influence their use of Islamic finance products. However, individual attributes, such as gender, age, income and education, were identified as determinants of financial inclusion and the use of Islamic finance products. Older males who are better educated, with higher incomes are most likely to be financially included. However, more educated individuals tend to be less likely to use Islamic financial products. Finally, the empirical investigation carried out in this study revealed that the use of Islamic finance products has a positive relationship with financial inclusion but little impact on enhancing the overall financial inclusion rate in Nigeria.

9.3.1 Objective one:

- To critically appraise theories on the rules of Islamic finance and its relationship with financial inclusion.

This objective was achieved by reviewing the theories of Islamic economics and finance derived from the two main sources of Islamic principles, the *Holy Quran* and the *Sunnah* of the *Holy Prophet.* The findings suggested that adhering to Islamic principles in financial systems enhances income redistribution and promotes access to financial resources through risk sharing; hence it enhances financial inclusion.

9.3.2 Objective Two:

- To examine the determinants of financial inclusion in Nigeria.

This objective was achieved by using the data from the Global Findex database established by the World Bank in 2011; it comprises the survey data of 150,000 individuals from 143 countries, indicating trends on individual participation in formal financial services, including information on savings, payments, risk management and borrowings with formal financial services and factors determining the individual use of financial services in an economy. Using logistic regression analysis, this study examines the influence of four individual attributes - gender, age, education and income - on the individual financial behaviour, such as bank accounts, savings and loans, which are considered financial inclusion indictors from the literature. The findings suggested that all the parameters have positive signs, indicating that older individuals who are more educated and with a higher income are more likely to be financially included. Meanwhile, the males are more likely to be financially included than highly restricted and controlled females. However, the result suggested that Nigeria is doing better as it is above the average of the African financial inclusion index in three indicators, including the financial inclusion rate, although it is lower than the global average.

9.3.3 Objective Three:

- To examine the awareness, access and perceptions of the adult population toward Islamic finance products and the influence on their use in Nigeria.

This objective was achieved through the statistical analysis of the data collected through the questionnaire. The variables were identified based on the conceptual framework developed in this study. The variables were found to be important predictors of the use of Islamic finance products and explained customer awareness, preferences and perceptions of IFPs. Findings suggest that individual perceptions influence the use of IFPs, except for perceived government support.

9.3.4 Objective Four:

- To investigate the impact of Islamic finance on promoting financial inclusion in Nigeria.

The objective was achieved through qualitative and quantitative methods. The qualitative findings provided evidence that compliance with *Shariah* principles and the use of Islamic financial products have a positive relationship with financial inclusion while quantitative findings obtained through the empirical investigation also revealed a positive relationship, although the magnitude of the impact is insignificant.

9.3.5 Objective five:

- To investigate compliance with Islamic finance principles by Islamic financial institutions in Nigeria.

This objective was achieved by interviewing relevant Islamic finance sector stakeholders, such as the Central Bank of Nigeria, *Jaiz* Bank, and knowledgeable scholars who are professors in the International Institute of Islamic Banking and Finance. The findings reveal a strong and vibrant Islamic finance legal framework, and good compliance levels by actors including regulators and operators. However, the findings reveal that the government's economic empowerment initiatives, such as credit schemes that promote financial inclusion, have not been *Shariah* compliant. However, from the perceptions of all stakeholders, the findings reveal that Islamic principles have a greater positive influence on financial inclusion and the interviewees noted substantial awareness of Islamic finance products in Nigeria.

9.4 Findings

Consistent with the theoretical model developed, this study revealed that individual perceptions toward Islamic finance products influence the use of products among individuals in Nigeria. Similarly, the study identified determinants of financial inclusion among adults, such as gender, age, education and income levels. The result indicated that being older, with higher education levels, a high income and being a male enhances the chances of being financially included. The result reveled that more educated individuals are inclined to be less likely to use IFPs. However, the empirical findings revealed a positive relation between Islamic finance and financial inclusion, but it is not significant enough to enhance overall Nigerian financial inclusion.

The qualitative result revealed that Nigeria's regulatory authority have implemented robust measures to ensure efficient compliance to *Shariah* principles and provided a comprehensive legal framework for the operation of Islamic financial institutions in Nigeria. However, the findings suggest satisfactory compliance with the principles of Islamic finance by the operators. This has been achieved through four main areas that comprise the committee of experts and the *Sharia* compliance unit. They ensure products and services comply with *Sharia*, conducting auditing exercises which ensure prudence and transparency, the attainment of *Maqasid Shariah* and the *Sharia* Advisory Committee which, from time to time, advise financial institutions. The study further reveals that financial institution regulators and operators have standing committees charged with the responsibility to implement *Shariah* principles in the operational processes of Islamic Financial Institutions. The committee involves experts from various professions who advise the board on products and services to ensure maximum compliance.

The study explored the theoretical background of Islamic principles and the findings revealed that the application of *Shariah* principles suggest wider the financial inclusion of society. The Nigerian financial regulatory body manifested a vibrant regulatory framework that entails virtually all the required mechanism for the operation of Islamic financial institutions. The study also revealed the significant acceptance and usage of Islamic financial products, especially in the Muslim dominated Northern region of the country.

9.5 Critical Reflections on the Research Findings

Considering the empirical finding which suggested the insignificant impact of using Islamic finance, as proxied by Islamic banking deposits on enhancing overall financial inclusion in Nigeria and the theoretical postulation on the positive association between Islamic finance and financial inclusion. Such findings may be associated with the fact that Islamic finance in Nigeria is in its infancy with only one fully pledged operational Islamic bank. This perhaps associated with, low inclination to the financial technology and penetration of services by the Islamic financial institutions in the country.

Another critical issue identified by this study is the lack of coherence in providing *Shariah* compliant economic empowerment stimulus by the government of Nigeria; this may have been associated with the insignificant impact of Islamic finance on promoting financial inclusion in Nigeria. As the finding revealed, the majority of excluded individuals cited a lack of money and a significant number were excluded due to religious reasons, there is a need for the government to encourage financial inclusion through providing more *Shariah* compliant economic stimuli to enhance financial inclusion through Islamic finance.

On the determinants for using Islamic finance products, the result revealed that more educated individuals are less likely to use such products. This could be associated with the complicated nature of financial services demanded by working-class individuals and the associated challenges of financial service innovation, such as inadequate financial technology (Fintech) from nascent Islamic financial institutions in Nigeria. However, some believe that highly educated people are indifferent in choosing financial services between conventional and Islamic financial services, which tend to undermine the transition from the long existing conventional financial services to nascent Islamic finance industry.

The findings further revealed an appreciable awareness, access and a positive overall perception with the exception of perceived government support, as observed among the sample population. Therefore, there is a promising atmosphere for the development of Islamic finance and its consequent impact on overall financial inclusion in Nigeria. This aligned with the proposition from the literature that the suggested positive influence of awareness and access on financial inclusion and is consistent with the theoretical model of the study which depicted a positive relationship between individual perceptions and the use of Islamic finance.

Overall, this study and many others revealed a positive but insignificant relationship between Islamic finance and financial inclusion across various regions. Therefore, it is imperative for operators and regulators to play a significant role in unlocking the potency of Islamic finance in promoting financial inclusion, through financial innovation and *Shariah* compliant economic incentives that center on less privileged individuals. However, this study observed, a high level of compliance with the principles of Islamic finance among regulators and operators.

9.6 Theoretical Implications

This study adopted Stakeholder Theory and the Theory of Planned Behavior to underpin the study and each theory is discussed in Chapter 3. Stakeholder Theory is adopted to explain the responsibility of regulators and operators in providing a *Shariah* compliant regulatory framework, products and services to promote financial inclusion.

The finding suggested that the practical implications of *Shariah* compliance by the regulators and operators in Nigeria seem to align with the theoretical postulation of Stakeholder Theory as proposed by Freeman (1994). The theory is generally accepted as a driver in promoting moral values in an organization, through ethical decision making among the management in favor of all stakeholders (Enyinna, 2013). However, the qualitative results of this study indicate that both regulators and operators of Islamic finance complied with the principles of Islamic finance and established a regulatory framework, products and services that align with *Shariah* principles respectively. Thus, the demands by users of *Shariah* compliant financial services, especially amongst Muslims communities, have been considered. However, the findings suggested that the incentive-based compliance of *Shariah* principles by regulators in Nigeria is delicate in its compliance with the *maqasid Shariah*. Therefore, the result is not aligned with the proposition of Stakeholder Theory, which perceived that organizations should discharge their role in extending social welfare and inclusion in societies. Stakeholder Theory is used to measure corporate governance, the dispensation of social responsibilities and the inclusiveness of legitimate stakeholders. In other words, it takes account of how organizations discharge their role in extending social welfare and inclusion in societies.

However, consistent with the Theory of Planned Behavior (TPB), the findings revealed that individual perceptions influence the use of IFPs in Nigeria. Several studies relate the Theory of Planned Behavior to individual behavior when performing certain actions. This study presented empirical evidence to support the Theory of Planned Behavior by explaining the influence of individual perceptions on the use of Islamic finance products, as hypothesized by the TPB.

9.7 Practical Implications

The finding of this study has practical implications for both regulators and operators in the Islamic finance industry. The Central Bank of Nigeria and multi-national institutions, such as the Islamic Development Bank, African Development Bank, the World Bank, and non-governmental organizations, which are interested in an inclusive financial system may find these findings useful for developing new policies that center on financial inclusion among the low income segment of society and in evaluating the progress of policy and research on financial inclusion in Nigeria. These results may serve as a guide for operators in diversifying their products and services and developing new products that will enhance financial inclusion through *Shariah* compliant products and services.

As the results suggest, the nascent Islamic finance industry in Nigeria has a positive relationship with financial inclusion but it is not significant in promoting overall financial inclusion. It has been discussed in the critical reflections on the research findings that the insignificant impact of Islamic finance on enhancing financial inclusion in Nigeria may be related to the infant nature of the industry. Hence, operators of Islamic finance find this result useful in diversifying their products and services to further penetrate the financial market and encourage financial inclusion in Nigeria. The result suggested that the Nigerian government's incentive based financial inclusion initiatives are still yet to meet total compliance with Islamic finance principles. This has implications for the Nigerian target to reach an 80% financial inclusion level by the end of 2020. Thus, the Central bank of Nigeria (CBN) may find this result useful in further enhancing their financial inclusion strategy through incentive base *shariah* compliance initiative.

9.8 Recommendations

This study suggested a positive relationship between Islamic finance and financial inclusion, yet the findings revealed that this relationship is insignificant in promoting financial inclusion in Nigeria. However, the finding indicates a high level of awareness, access and positive attitude toward Islamic finance products among individuals. In addition, the study revealed a high level of compliance to the principles of Islamic finance in terms of the regulatory framework, products and services among regulators and operators. However, the incentive-based regulation demonstrated superficial *Shariah* compliance.

Based on these findings, and the fact that Islamic finance has yet to provide a significant impact on promoting financial inclusion in the country, this study stress the significance of incorporating more Shariah compliant products and services by the Nigerian government through its various economic support interventions, such as NIRSAL Microfinance bank and Anchor borrowers, to encourage the majority of Muslims who are financially excluded (especially in the Northern part of the country) where financial exclusion is predominant encourage to access formal financial services.

The insignificant impact of Islamic finance on enhancing financial inclusion is perhaps associated with the presence of only one Islamic bank in the country. Hence, the study highlights the importance of exploring more Islamic finance products and services by operators to enhance finance inclusion and maximize their profit.

The study further revealed that formal accounts represent the only segment of financial inclusion that serve a relatively high number of individuals in the country; other segments, such as saving and formal credit, are still low. Thus, this study advocates that regulatory authorities and operators to consider using available mechanisms to raise the level of savings and formal credit in the country, and operators should develop more financial products to support the business environment and other economic activities at the disposal of less privileged individuals.

This study emphasises the importance of intervention by Multi-National Financial Institutions (MNFIs), such as the Islamic Development Bank, the World Bank and the African Development Bank, to introduce more *Shariah* compliant economic interventions to enable the less privileged segments of society to access financial services.

9.9 Contribution of the Study

This study has contributed to the existing body of literature. There is very little literature that examines the implications of adhering to *Shariah* principles and the use of Islamic financial products to promote financial inclusion in Nigeria. For instance, Yusuf (2012), Nwaolisa & Kasie (2013) and Lawal & Imam (2016) study the contributions of Islamic finance to economic growth and development in Nigeria. However, Zauro (2017) examines the intention to accept Islamic finance among the population in Nigeria and the moderating effect of financial inclusion. Moreover, studies, such as Ngwu, (2015), Ondiege, (2015) and Atkinson & Messy, (2013), examined the impact of regulatory policies on financial inclusion. On the other hand, the literature on financial inclusion advocated an investigation into the inclusiveness of access to formal financial services by considering both the supply and use of prevailing financial products and services (Cámara and Tuesta, 2014). Studies by Honohan, (2007), Sarma (2008, 2012) and Chakravarty (2007) suggested measuring financial inclusion through both the demand and supply sides.

Therefore, this study has contributed to the existing body of literature by investigating compliance with *Shariah* principles, the use of Islamic finance products (IFPs) and their consequent effect on promoting financial inclusion in Nigeria. Accordingly, the implications of the theories of Islamic principles and the use of IFPs to promote financial inclusion were examined. The study also examined compliance with Islamic financial principles by operators and regulators and explored the population’s attitudes and perceptions towards the usage of Islamic financial products.

9.9.1 Theoretical Contribution

This study contributes to the debate on Stakeholder Theory, Shareholder Theory, the Theories of Reason Action and Planned Behaviour, principles of Islamic finance and the impact of Islamic finance on enhancing financial inclusion. Establishing a conceptual framework and providing convincing evidence from the literature enabled contributions to these theories. This encompassed comprehensive perspectives to explain the responsibility of regulatory authorities and operators in providing a conducive legal framework and other financial inclusion initiatives that encompassed *Shariah* compliant products. These aligned with *Shariah* principles and operators complied with *Shariah* principles when designing products and services.

Theories are an integral part of research and their importance is key to the research process (Lesham & Trafford, 2007). Hence, this study applies two theories (Stakeholder Theory and the Theory of Planned Behaviour) to develop a conceptual framework to examine the factors influencing individual attitudes to use Islamic financial products. Stakeholder Theory is used to hold financial sector regulators and Islamic finance operators responsible in providing access to formal financial services.

The theoretical implications of Stakeholder Theory are based on perspectives from various studies in the field of Islamic finance, which associated the background of Stakeholder Theory to the principles of Islamic economics as based on *Shariah* objectives. For instance, *Shariah* itself is, "*predicated on benefiting the Individual and the community, and its laws are designed to protect these benefits and facilitate the improvement and perfection of human life in this world"* (Dusuki and Abdullah, 2007 p. 31). This is supported by the notion that business entities are perceived to be concerned with not only shareholder interest but the interests of various legitimate stakeholders (Freeman, 1984). Therefore, Stakeholder Theory aims to retain the social relationship between organizations and all its stakeholders (Cámara and Tuesta, 2014; Grunig and Huang, 2000). Accordingly, this study argues that the normative aspect of Stakeholder Theory has a basis in the axiomatic principles of Islamic finance which emphasize social justice, benevolence and inclusion in society, and specifically, the *Tawhid*, property rights and contractual agreement. For instance, the concept of *Tawheed* states that, to get the same *falah* (benefits) in the hereafter, individuals are expected to establish mutual social interdependence by helping the economic agents through beneficence (Asutay, 2013). However, the theoretical implication of a study on how the Theory of Planned Behaviour relates to the adoption of related variables alongside the variables suggested in the Theory of Planned Behaviour are significant in explaining the use of Islamic financial products.

9.9.2 Practical and Methodological Contribution

Arguably, this study is the first to use logistical regression analysis to investigate the implications of individual attributes on the use of Islamic finance. Moreover, the study developed a conceptual framework in which the examined variables are explained and related to the phenomenon under investigation. Taking into consideration the Alliance for Financial Inclusion (AFI), the Maya Declaration, 2011, and the perception of financial sector experts on the viability of Islamic finance in promoting financial inclusion, there is hope for increased financial inclusion in the near future. However, there is concern about Nigeria's nominated financial inclusion rate of 80% by 2020, as reflected in the revised Nigerian Financial inclusion Strategy. Hence, the finding of this study will be significant for policy direction and assessment.

9.10 Limitations and Suggestions for Future Research

Islamic finance is relatively new in Nigeria; as it is characterised by only one fully pledged Islamic bank, two *Takaful* and one Islamic micro finance bank, it is difficult to measure its contribution to Nigerian financial inclusion. The Central Bank of Nigeria and *Jaiz* bank represent the supply side, hence vital information regarding Takaful and Islamic micro finance may not adequately be represented. Due to the sensitivity of religious issues in Nigeria, neither the primary nor secondary data in this study consisted of information regarding respondents' religion. However, the literature suggests a strong relationship between an individual's religion and financial inclusion and the use of IFPs. Therefore, future research may seek an approach to collect information on respondent's religion to explain its association with financial inclusion in Nigeria. Moreover, although this study adopted two theories, future research may find a single theory that can explain both the supply and demand side.

9.11 Epilogue

The main aim of this study is to evaluate the impact of Shariah compliance and the use of Islamic finance products in promoting financial inclusion in Nigeria. Based on the preceding discussion, Islamic principles provide a holistic way of life for human beings. These provide a social and economic framework that individuals and societies can follow in conducting their daily economic activities by adhering to Shariah objectives. Islamic philosophers developed an economic system that conformed to Islamic principles in order to protect global economics from exploitative capitalist systems. The Islamic economic system is informed by a philosophical assumption that provides a safety-net by advocating risk-sharing financing in an economy. The risk-sharing basis of Islamic finance demonstrates the capability to convert the financial exclusion that stems from exploitative and self-motivated capitalist finance systems. Therefore, the study found that Islamic finance will provide an inclusive financial system capable of enhancing financial inclusion among individuals and corporations that are often excluded from formal financial systems for various reasons. Despite this, the study's findings indicated little impact of Islamic finance on enhancing financial inclusion in Nigeria. As established in the theoretical and empirical chapters, the aim and objectives of this study have been achieved.

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