THE REPUBLIC OF TÜRKİYE
SOCIAL SCIENCES UNIVERSITY OF ANKARA
INSTITUTE OF ISLAMIC RESEARCH

Islamic Economic and Finance Department

Accelerating financial inclusion through Islamic finance institutions in Mauritania

Master's Thesis

Mohamedou Mohamed Lemine Babah

Ankara

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ACCEPTANCE AND APPROVAL PAGE

ACKNOWLEDGMENT

Praise be to Allah, by His grace and majesty, righteous deeds are perfected." Allah the Almighty says: "And whatever you have of favor - it is from Allah."

Writing a thesis is a journey that requires the support and encouragement of many individuals and institutions. As I reflect on the completion of this work, I am deeply grateful to all those who have contributed to its realization. Their guidance, assistance, and unwavering support have been invaluable throughout this process.

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Last but not least, I would like to dedicate this thesis to my father and my elder brother, may Allah have mercy on them, whom I wished were present to share my joy with them. Mohamed Lemine /Babah & Mohamed/ Mohamed Lemine, whose memory and inspiration have been a guiding light throughout this journey. Their influence and encouragement continue to inspire me to strive for excellence and make a positive impact in my field of study.

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ABSTRACT

Financial inclusion is seen as a catalyst for broad-based economic progress by encouraging investment, entrepreneurship, job creation, education, and healthcare. Consequently, it has the potential to diminish income disparities, alleviate poverty, and enable women to participate in inclusive economic growth. Nonetheless, the emergence of Islamic finance, increasingly recognized worldwide, offers a promising avenue for fostering financial inclusion, particularly in developing nations like Mauritania. Yet, the extent to which adherence to Islamic finance principles and the utilization of Islamic financial products contribute to improving access to formal financial services in Mauritania has not been thoroughly examined.

Therefore, this study seeks to investigate the role Islamic finance can play in enhancing financial inclusion in Mauritania. To achieve this, the study explored the theoretical background of Islamic finance and its relationship with financial inclusion, factors of financial inclusion, the impact of individuals' perceptions on the usage of Islamic finance products. The study utilized both qualitative and quantitative methods, relying on primary and secondary data. Statistical analysis using SPSS software was employed to examine the factors of financial inclusion, the impact of individuals' perceptions on the usage of Islamic finance products, and the effect of Islamic finance on enhancing financial inclusion, through qualitative analysis of the questionnaire administered to various segments of society including employees and students.

The study results indicated that Islamic finance has a positive relationship with financial integration, observed through both qualitative and quantitative analysis. Experimental investigations conducted in the study showed that factors of financial integration (gender, age, income, and educational attainment) influence financial integration. The study also revealed that awareness of financial inclusion is further enhanced by awareness of Islamic finance. Additionally, the study indicated that a significant portion of Mauritania resist integration, citing religious reasons as a barrier, making raising awareness of Islamic finance necessary for financial inclusion.

Furthermore, the study concluded that Mauritania prefer integration through Islamic financial institutions. However, the Mauritanian experience in this area is relatively recent and in a legal and operational environment distinct from traditional institutions, which has led some to question its Islamic nature.

This scientific message contributes theoretically and experimentally to the literature of financial inclusion by studying the determinants of using Islamic finance products and the impact of Islamic finance on enhancing financial inclusion in Mauritania. This was done through quantitative and qualitative measurements of the impact of Islamic finance on financial inclusion through the perceptions of individuals and stakeholders and their utilization of Islamic finance. Therefore, the study contributed to policy directions regarding financial inclusion and Islamic finance in Mauritania.

Keywords: Financial inclusion, Islamic finance, Mauritania, and Accelerating.

ÖZET

Finansal kapsayıcılık, yatırımı, girişimciliği, iş yaratmayı, eğitimi ve sağlık hizmetlerini teşvik ederek geniş tabanlı ekonomik ilerlemeyi tetikleyici olarak görülmektedir. Sonuç olarak, gelir eşitsizliklerini azaltma, yoksulluğu hafifletme ve kadınların kapsayıcı ekonomik büyümeye katılmasını sağlama potansiyeline sahiptir. Bununla birlikte, dünya çapında giderek daha fazla tanınan İslami finansın ortaya çıkması, özellikle Moritanya gibi gelişmekte olan ülkelerde finansal kapsayıcılığı teşvik etmek için umut verici bir yol sunmaktadır. Ancak, İslami finans prensiplerine bağlılık ve İslami finansal ürünlerin kullanımının Moritanya'da resmi finansal hizmetlere erişimin geliştirilmesine ne ölçüde katkıda bulunduğu henüz tam olarak incelenmemiştir. Bu nedenle, bu çalışma, İslami finansın Moritanya'da finansal kapsayıcılığı artırmada oynayabileceği rolü araştırmayı amaçlamaktadır. Bunun için, çalışma İslami finansın teorik arka planını ve finansal kapsayıcılıkla olan ilişkisini; finansal kapsayıcılık faktörlerini, bireylerin algılarının İslami finans ürünlerinin kullanımına etkisini keşfetti. Çalışma, hem nitel hem de nicel yöntemleri kullanarak, birincil ve ikincil verilere dayanarak yapılmıştır. SPSS yazılımını kullanarak istatistiksel analiz, finansal kapsayıcılık faktörlerini, bireylerin algılarının İslami finans ürünlerinin kullanımına etkisini ve İslami finansın finansal kapsayıcılığı artırma etkisini incelemek için kullanılmıştır. Bu, toplumun çeşitli kesimlerine (çalışanlar ve öğrenciler dahil) uygulanan anketin nitel analizi yoluyla gerçekleştirilmiştir.

Çalışma sonuçları, İslami finansın finansal entegrasyonla pozitif bir ilişkisi olduğunu, hem nitel hem de nicel analiz yoluyla gözlemlendiğini göstermektedir. Çalışmada yapılan deneysel araştırmalar, finansal entegrasyonun faktörlerinin (cinsiyet, yaş, gelir ve eğitim düzeyi) finansal entegrasyonu etkilediğini göstermektedir. Çalışma ayrıca, finansal kapsayıcılığın farkındalığının İslami finans farkındalığı tarafından daha da arttığını ortaya koymuştur. Ayrıca, Moritanyalıların önemli bir bölümünün

entegrasyona dini nedenlerle direndiğini, bu nedenle finansal kapsayıcılık için İslami finansın farkındalığının artırılmasının gerekliliğini belirtmiştir.

Ayrıca, çalışma, Moritanyalıların İslami finans kurumları aracılığıyla entegrasyonu tercih ettiğini sonuçlandırmıştır. Ancak, Moritanya'daki deneyim bu alanda oldukça yeni ve geleneksel kurumlardan farklı yasal ve işletme ortamına sahiptir, bu da bazılarının İslami doğasını sorgulamasına neden olmuştur.

Bu bilimsel mesaj, Moritanya'da İslami finans ürünlerinin kullanımının belirleyicilerini ve İslami finansın finansal kapsayıcılığı artırmadaki etkisini inceleyerek finansal kapsayıcılık literatürüne teorik ve deneysel olarak katkıda bulunmaktadır. Bunlar, bireylerin ve paydaşların algıları ve İslami finanslarının kullanımı yoluyla İslami finansın finansal kapsayıcılık üzerindeki etkisinin nicel ve nitel ölçümünü içerir. Bu nedenle, çalışma, Moritanya'da finansal kapsayıcılık ve İslami finans konusundaki politika yönelimlerine katkıda bulunmuştur.

Anahtar kelimeler: Finansal kapsayıcılık, İslami finans, Moritanya ve Artırılması.

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CECD-M : Caisse d'Epargne et de Crédit Djiké-Mutuelle

CGAP: The Consultative Group to Assist the Poor

DPK: The Development of Third-Party Funds

FSAP: Financial Sector Assessment Program.

GCC: The Gulf Cooperation Council

GDP : Gross Domestic Product

IFP: Islamic finance products

MFI : The Microfinance institutions

MRU : Mauritanien Ouguiya

OIC: The Organization of Islamic Cooperation

ONS: National Statistics Office

PROCAPEC/CAPEC : Réseau des caisses populaires d'épargne et de crédit.

RDS: Rural Development Scheme

UNDP: The United Nations Development Programme

UNMICO : l'Union Nationale des Mutuelles d'Investissement du Crédit Oasien

WB: Word bank

INTRODUCTION

BACKGROUND OF THE STUDY

Financial inclusion has become the focus of attention of many governments and supervisory authorities, according to the close relationship between financial inclusion on the one hand, and sustainable financial and economic growth on the other.

Promoting financial inclusion has proven particularly successful in bolstering investment and entrepreneurship, alleviating poverty, advancing income equality, empowering women, and creating job opportunities within economically disadvantaged communities (Zins & Weill, 2016).

Although financial inclusion holds significant importance for a country's economy, reports suggest that access to financial services remains restricted in numerous countries, particularly in those categorized as developing nations. Based on the 2017 Global Findex data, a mere 21 percent of adults in Mauritania possessed a bank account (Demirgüç-Kunt et al., 2022).

It is difficult to imagine sustainability in financial stability while a large proportion of the population or institutions remain financially excluded from the economic system. In addition to promoting and competing among financial institutions to develop their products and improve their quality to attract more customers, financial inclusion also plays an important role in making money circulate through the legal methods of a country to block the path to money laundering.

Nonetheless, the implementation of an Islamic financial system has played a vital role in promoting financial accessibility for economic participants, particularly within nations with a predominantly Muslim population.

In recent years, the Islamic financial sector has witnessed significant expansion, with assets growing by approximately 20% annually. This remarkable growth reflects the industry's robustness and widespread attraction, attributable in part

to the guiding principles governing.
Islamic Financial transactions (Hussain et al., 2016). “Islamic finance addresses the issue of “financial inclusion” or “access to finance” from two directions — one through promoting risksharing contracts that provide a viable alternative to conventional debt-based financing, and the other through specific instruments of redistribution of the wealth among the society” (Mohieldin et al., 2011, p. 55).
Hence, the implementation of Islamic finance mitigates financial exclusion through the promotion of savings and the facilitation of financial innovation, aimed at meeting the needs of investors, depositors, and borrowers, thereby increasing their involvement in formal financial systems (Weill, 2014).
Due to the evolution of Islamic finance, it is rare, if not almost nonexistent, to find high-quality empirical studies regarding the potential role of Islamic finance in financial inclusion in Mauritania. As a result, this study aims to shed light on the status of Islamic finance, its attractiveness, and its utilization by clients, and how this contributes to financial inclusion in Mauritania.

PROBLEM STATEMENT

Mauritania did not have early banking services, as it gained independence from France in 1960 and remained part of the West African Monetary Union. Even until the early 1970s, its banking system consisted of only three traditional banks in addition to a branch of the Central Bank of West Africa.
In 1973, Mauritania established its central bank and issued its own currency, the Ouguiya, to begin building its particular financial system.
Despite the relatively early entry of Islamic finance into the Mauritanian state through the Islamic Bank Al Baraka in partnership with the private sector in 1985, due to the absence of regulatory laws for such institutions at the time and a lack of awareness about the role of Islamic finance in the country like Mauritania, with its Muslim-majority population, to integrate it into the

financial system of the state. Therefore, this experience has failed, leading to the exploration of other experiments after that, which will be discussed in more detail in the upcoming chapters.

Mauritania continues to be among the weakest countries on the financial inclusion index, and this remains a significant barrier to any sustainable economic growth. Effective sustainability is unimaginable, as the majority of the population conducts their daily transactions outside the official financial system.". In this context, the research aims to contribute to solving this financial exclusion problem by exploring the role that Islamic finance can play in accelerating and promoting financial inclusion in Mauritania.

RESEARCH QUESTIONS

- How do Islamic finance institutions operate in Mauritania?
- Can Islamic financing be a factor in promoting financial inclusion?
- Does Islamic financial institutions attract Mauritanian users?
- What are the determinants of financial inclusion?
- What is the status of financial inclusion in Mauritania?

RESEARCH OBJECTIVES

- Giving an overview of the reality of financial inclusion in Mauritania
- An overall knowledge of Islamic finance in Mauritania and its development over time
- The market share occupied by Islamic finance in the Mauritanian market.

RESEARCH METHODOLOGY

Research methodology refers to the systematic approach employed by a researcher to effectively, impartially, precisely, and efficiently address inquiries. As articulated by Kumar (2011), it involves structuring the conditions for gathering and analyzing data in a manner that balances relevance to the research objectives with efficiency in procedure.

Through the framework of research design, researchers articulate their decisions regarding the chosen study design, methods of data collection from participants, respondent selection criteria, data analysis techniques, and methods of disseminating findings.

Multiple procedures are engaged in the collection and analysis of data. This research employs a combination of survey and secondary data to address the research inquiries. Consequently, the study embraces mixed research methods, integrating qualitative and quantitative data to fulfill the research objectives.

Burke-Johnson and others,(2007) describe this as an empirical study where a researcher integrates aspects of both qualitative and quantitative research methodologies to achieve comprehensive insights and validation, aiming for a nuanced understanding with extensive coverage.

The research employed a quantitative research approach to examine how Islamic finance contributes to advancing financial inclusion in Mauritania. This involved conducting surveys with diverse individuals across various regions. The aim of the study is to underscore the significance of Islamic finance in enhancing financial inclusion within the country (Asenahabi, 2019).

Qualitative research is centered on exploring and integrating the significance that individuals or groups attribute to matters concerning humanity. It also centers on the objective or actuality as perceived by the respondents(Asenahabi, 2019). Quantitative research is viewed as an analytical methodology in conducting research,(Asenahabi, 2019). The study employed a quantitative research approach to examine how Islamic finance contributes to advancing financial inclusion in Mauritania. This involved conducting surveys with diverse individuals across various regions. The study aims to underscore the significance of Islamic finance in enhancing financial inclusion within the country.

CHAPTER 1. LITERATURE REVIEW

1.1. INTRODUCTION

Since the first attempt, an Islamic bank was established in the city of Meet Ghamr in Egypt around 1960, and it witnessed considerable success in its first three years (Hussain et al., 2016). the latter decades of the twentieth century and up to the present have seen a remarkable evolution in the Islamic finance industry. During this period, the concept of financial inclusion emerged, advocated by international institutions to bring financial services closer to citizens for the sake of well-being and to reduce the gap between high-income and low-income individuals. this paved the way for some studies that attempt to highlight the intersection between Islamic finance and financial inclusion.

1.2. THEORETICAL REVIEWS OF THE INTERSECTION BETWEEN ISLAMIC FINANCE AND FINANCIAL INCLUSION

One of the first studies to study the impact of Islamic finance on financial inclusion is that of Mohieldin and others (2011) The study aimed to learn about the role played by Islamic finance in improving financial inclusion in OIC countries. The study found that Islam provides several non-traditional financing tools and methods that, if implemented, would inevitably reduce poverty and inequality in this group's countries, which are often extremely poor.

The study by Warsame (2009) concluded the primary discoveries of the study indicate that a significant portion of Muslims in the UK face financial exclusion due to the lack of banking products that align with their requirements and adhere to Shari'a principles.

The study also reveals that while UK Muslims express a preference for Shari'a-compliant financial solutions, the existing offerings in this category do not notably enhance their financial inclusivity. The research findings attribute the limited adoption of available Shari'a-compliant financial products to widespread doubt about their authenticity.

Similarly, concerns about affordability, acceptability, and accessibility of these products are prevalent among the less financially privileged UK Muslims. The study concludes that providers of Shari'a-compliant finance should reconfigure their current offerings to better address the financial service needs of the less affluent Muslim communities in the UK. Furthermore, the research proposes the establishment of Islamic micro-financing initiatives by mainstream financial institutions to cater to the financial requirements of the economically disadvantaged Muslim population in the UK.

The UNDP's 2012 study investigates the effectiveness of the Islamic microfinance initiative implemented through the Rural Development Scheme (RDS) by Islami Bank Bangladesh Limited. The findings demonstrate that Islamic microfinance plays a favorable role in reducing poverty and holds significant, yet untapped, potential as a potent tool for socio-economic advancement. The report highlights that a substantial number of impoverished individuals could overcome poverty if Islamic microfinance is expanded across countries with Muslim-majority populations. According to the report, nations aiming to replicate the success of the RDS program in collaboration with the private sector should prioritize robust capacity building at all levels to fully harness the possibilities presented by Islamic microfinance (UNDP, 2011).

A study has come to Iqbal & Mirakhor (2012) Financial inclusion: Islamic perspective. This paper found that Islam provides a comprehensive framework for improving financial inclusion through risk-sharing and Islamic redistribution channels.

Also, a paper by Demirguc-Kunt and others (2014) on Islamic finance and financial inclusion: This paper used a data collection survey of some 65,000 respondents from 64 countries and the study comes to the conclusion that Muslims are much less likely than non-Muslims to have a formal account or save at a formal financial institution after controlling for other individual- and country-level characteristics. The analysis, however, turned up no evidence suggesting that Muslims are less prone than non-Muslims to record formal or informal borrowing.

Beck and others (2013) Examine the distinctions between Islamic and traditional banks. In their comparison of these bank types, they factor in time-dependent country-specific influences and identify several noteworthy variations. Specifically, Islamic banks exhibit lower costeffectiveness, yet they showcase a greater intermediation ratio, improved asset quality, and stronger capitalization. This suggests that despite their reduced cost efficiency, Islamic banks prove to be more financially viable when contrasted with conventional banks. Such findings might encourage regulatory authorities to promote the growth of Islamic banking, thereby fostering financial inclusivity and bolstering profits.

The research by Elrahman and Saaid, (2014) findings suggest that Islamic microfinance is expanding its scope beyond traditional approaches to achieve both social and financial inclusion in tandem. This is achieved by employing Islamic social mechanisms like Sadaqah, waqf, and Zakah, which are directly given to the most impoverished individuals, either in monetary form or through essential supplies, to address their basic requirements prior to granting them microcredit. These outcomes serve as encouraging insights for microfinance providers in these nations, urging them to enhance the socio-economic inclusion of underprivileged populations.

In an IMF working paper by Ben Naceur and others (2015) which examined the possible relationship between Islamic banks and financial inclusion in OIC countries the study found that although access to financial services has increased more rapidly in recent years, The group's countries remain among the least inclusive in the world in part because to self-exclusion, and the paper found that Islamic banks played a role in religious self-exclusion as they worked to alleviate it.

The findings of this study Lampung and others.,(2015) indicate that Islamic banks hold significant promise for advancing financial inclusion in Indonesia.

This is substantiated by the rise in Third Party Funds (DPK) and the growth of financing, particularly in microfinance. Additionally, the availability of zakat and social funds further enhances the ability to provide access to funding for underserved small and micro businesses.

The research was also carried out under the heading of financial inclusion, financial inclusion policy, and Islamic finance. The study found that the use and access to financial services by adults and companies in most Islamic countries lagged behind other emerging economies. In addition, micro-Islamic finance is very limited where it is representing about 0.5% of global microfinance. The study found that Islamic financial services still have a long way to go to participate effectively in improving financial inclusion because of their relatively weak infrastructure in most Muslim countries (Zulkhibri, 2016).

A study had been conducted on financial exclusion in Australia, and could Islamic finance reduce it? Especially if we know that Muslims in Australia account for about half a million. The study relied on an analysis of the literature on the subject and found that financial exclusion was a problem in Australia. The lack of information on financial exclusion on the basis of race or religion was a major challenge, in addition to the lack of institutions providing Islamic financial services. The study concludes that Islamic finance can play a significant role in alleviating this problem (Sain et al., 2016).

In a paper on Islamic microfinance as a tool for financial inclusion in Bangladesh, the paper found that conventional microfinance had failed assets to all groups and the poorest in particular due to the high-interest rate. As a result, the paper considered that Islamic microfinance could serve as an effective tool for promoting financial inclusion through comprehensive and innovative models based on zakat, charity, waqf, and commercial funds (Nabi et al., 2017). Another study found that Islamic microfinance is a very broad area and requires a great deal of research and studies that depend not only on Sharia-compliant economic and financial sciences but also on sociology, politics, and culture.

The study also found that Islamic finance suffers from several obstacles to stand its development, notably the high costs and fragility of supply. However, he possesses many strengths, perhaps most notably his dynamism and ability to adapt to the environment around him, which makes him a catalyst for financial inclusion (Drissi & Angade, 2017). On the other hand, the paper on religious preference and financial inclusion highlighted the implication that a large number of individuals in the countries studied had religion as an excuse for financial exclusion which in turn stimulated the development of Islamic finance, which in turn also enhanced financial inclusion (Kabir Hassan et al., 2018).

A study titled "Islamic Finance: Financial Inclusion or Migration" found that Islamic finance has an important contribution to make to financial inclusion efforts. The study also concluded that the enjoyment of Islamic finance by effective institutions such as Waqf and Zakat, for example, its operationalization will have a wide impact on financial inclusion (Tahiri Jouti, 2018). There is also a study conducted by the Arab Monetary Corporation on the impact of Islamic finance in promoting financial inclusion in Arab countries. The study found that Islamic finance plays an important role in enhancing access to finance in Arab countries (Ebeid, 2019).

Reaching accessibility of financial services by the public is an important factor in the development process, which has made Islamic finance play a crucial role in this process by providing a range of services that open doors for a large segment of the population (Lone, 2020).

The practical examinations carried out during the research (Bashir, 2020) unveiled that certain factors (gender, age, income, and educational achievement) shape the level of financial inclusion. This implies that higher age, income, and educational attainment, along with being male, enhance the probability of being financially included. When it comes to the adoption of Islamic finance products (IFPs), three of the variables displayed similar effects, except for educational attainment, which indicated that a higher level of education corresponds to a lower likelihood of utilizing Islamic finance products. Consistent with the study's conceptual model, the perceptions of adults generally appeared to influence their utilization of Islamic finance products. The sole exception was the perceived government benefits, which negatively affected the use of Islamic finance products. Meanwhile, the results underscored substantial adherence to Shariah principles by both regulators and operators. However, the findings also demonstrated that the presence of Islamic finance products doesn't significantly impact financial inclusion in Nigeria.

After reviewing these studies, most of which generally focused either on all Islamic countries as a group the Organization of Islamic Cooperation (OIC), or on a specific group of countries like the Gulf Cooperation Council (GCC), with few exceptions specifically targeting the Muslim minority of Western countries. This made both studies deficient from my perspective, as taking the matter in its entirety, like researching Islamic countries, does not yield accurate results. It is known that there are economic, cultural, and social differences among them additionally, studying minorities in non-Muslim countries would produce similar results.

Hence, our research distinguishes itself from previous studies in two main aspects: The study was conducted in a country where the entire population is Muslim, and it has not been studied in this manner before, as far as I have seen from research papers. What also distinguishes it is that it combines a descriptive approach with field research through a survey presented to Mauritanians to make the study complete from both theoretical and practical perspectives to have what you present in terms of conclusions and recommendations be of great confidence among researchers and policymakers.

CHAPTER 2: CONCEPTUAL FRAMEWORK

2.1. INTRODUCTION

This chapter offers a theoretical foundation for both Islamic financial principles and the concept of financial inclusion. It commences by introducing the notion of Islamic finance and subsequently elaborates on its underlying principles. The chapter also outlines the unique characteristics of Islamic finance and provides an overview of the various products associated with it. In addition, the chapter discusses the subject of financial inclusion, discussing its conceptual framework, the obstacles that hinder it, and the different dimensions it encompasses.

2.2. THE CONCEPT OF ISLAMIC FINANCE

Given the interactions and transactions that humans engage in with each other, and the importance necessitated by such interactions, Islam emphasizes the establishment of rules in this regard, as elucidated by the principles of Islamic finance.

Islamic finance refers to a financial service primarily designed to adhere to the fundamental principles of Sharia, which is Islamic law. On the other hand, Islamic finance has two meanings: a broad meaning and a narrow meaning. In its broad sense, Islamic finance involves providing tangible or monetary wealth, whether the intention of the financier is profit-seeking or charitable donation while adhering to the Sharia-compliant principles that govern financial transactions. It can also be defined as giving money (in its Sharia-compliant sense) through Islamic financing contracts, which include donation contracts, profit-sharing contracts, and investment contracts. The narrow meaning of Islamic finance is essentially what can be expressed as Islamic finance or the field of Islamic financial management. It is a branch of Islamic economics that focuses on studying the best methods to acquire funds and the optimal ways to utilize these funds in accordance with the principles of Islamic law (Qunduz, 2019, pp. 17–18).

2.3. PRINCIPLES OF ISLAMIC FINANCE

Islamic Sharia, in principle, permits freedom of contract, as all contracts are allowed as long as they do not violate the prohibited principles defined by Sharia. These principles encompass three main prohibitions: Riba, Gharar, and Maysir.

2.3.1. Definition of Riba

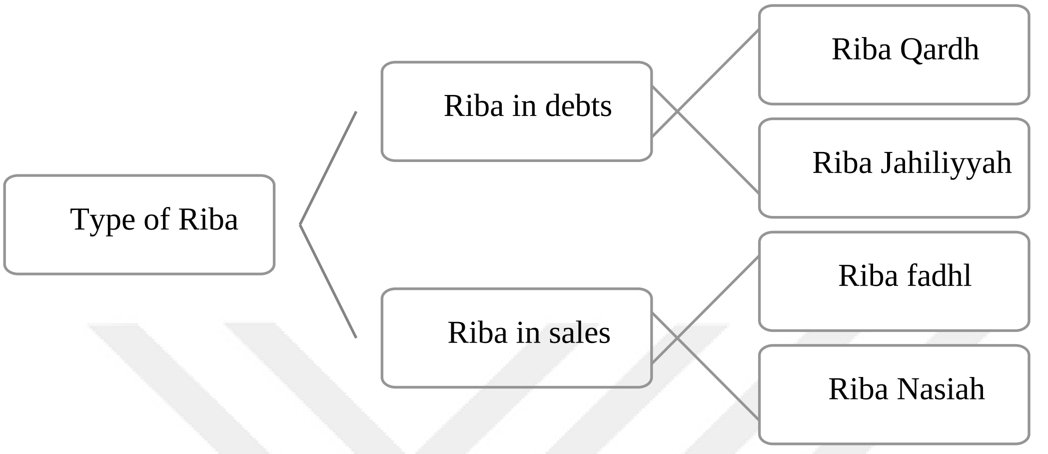
The term "riba" functions as a noun, denoting a literal increase, while in its capacity as a root, it signifies the act of augmentation. On the other hand, In its fundamental essence, riba can be described as 'any amount, whether significant or minor, monetary or non-monetary, that exceeds the original loan amount and is required to be repaid by the borrower to the lender alongside the principal, either as a stipulated condition or according to customary practice, or in exchange for an extension of the loan's duration. According to the unanimous agreement among Islamic jurists, it shares an analogous definition and significance with the modern concept of interest (Molyneux, 2006).

Among the many reasons that have been identified by scientists and verified by reality as the cause for prohibiting riba, we can refer to what Siddiqi mentioned, (2004) riba is unjust; riba undermines society; riba involves the improper acquisition of others' property; riba ultimately leads to negative growth; riba devalues and erodes human character.

2.3.1.1. Type of riba

Riba can be categorized into two types: riba associated with debts and riba related to exchange transactions, commonly referred to as riba in sales.

Figure 1: Type of riba



Source: Author

Riba duyun refers to the practice of debt usury involved in the exchange of loans. Within the confines of riba duyun, which pertains to usurious debt, various forms of wealth and currency are encompassed (Nafis Alam, 2017). This specific type of riba can be further categorized into two distinct subtypes:

- Riba al-Qardh, in this context, refers to the interest charged on the initial loan amount as stipulated in the contract.
- Riba al- Jahiliyyah It involves charging the borrower an excessive amount if they are unable to repay the loan on the agreed-upon date.

Riba in Sales: This form of riba can manifest when there is an exchange involving two ribawi materials of identical nature, and the applicable rule(s) are not adhered to Similar to riba duyun, riba in sales also exists in two forms(Nafis Alam, 2017):

- Riba al-fadl refers to excess money beyond the initial loan amount. It pertains to transactions involving identical commodities, where money is traded for money but in varying amounts.

- Riba al-Nasiah: The term "nasi'ah" refers to the act of delaying or postponing. In this situation, the ribawi materials being traded have identical weights, measurements, or quantities, but the payment and the delivery of the goods occur at separate times.

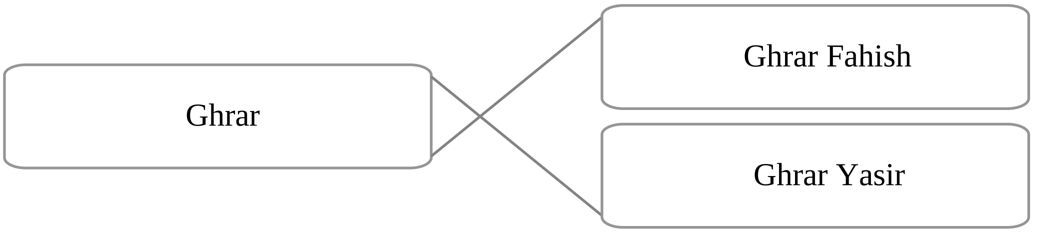
2.3.2. Definition of ghrar

Gharar signifies an element of uncertainty, hazard, chance, or risk. One of the best interpretations of the ghrar is the one expressed by Mustafa Al-Zarka: “gharar is the sale of probable items whose existence or characteristics are not certain, due to the risky nature which makes the trade similar to gambling”.

2.3.2.1. Type of ghrar

In reality, it's impossible to completely eliminate uncertainty, such as gharar. Al-Shatibi says, “to remove all Gharar from contracts is difficult to achieve, besides, it narrows the scope of transactions”. However, ghrar can be divided into two categories:

Figure 2: Type of Ghrar



Source: Author

- Ghrar Fahish: This can be referred to as significant or substantial ghrar, which is characterized by an uncertainty of such magnitude that it becomes deemed unacceptable or too indistinct to be quantified. The Muslim juristes have provided examples of this type of ghrar, including:
    i. Selling an animal that has not yet been born. (Habal-al-Habalah).
    ii. Selling an item of uncertain origin.

iii. Postponing the payment to an unspecified future date.

iv. Selling a bird soaring in the sky.

v. Selling a camel that has escaped.

- Ghrar Yasir: This constitutes a minor level of uncertainty, which can be present in almost all agreements. The rationale behind this is that if the lack of knowledge pertains to a non-critical aspect of the transaction, one that is unlikely to impede its fulfillment and delivery, the fundamental purpose of the contract is still achieved, and it remains valid. Most people concur that having a good understanding of both the nature of the sold item and its price can help prevent disputes between the parties involved. There are instances in which Muslim jurists concurred on representing minor levels of Gharar, such as:

  i. Selling an overcoat with a concealed lining.

  ii. Selling a house without revealing its foundations.

  iii. Leasing a residence for a variable duration of either 30 or 31 days.

  iv. Buying fruits without inspecting or removing the skin to check the contents.

  v. Charging a consistent nightly fee for a hotel room, regardless of the varying services and quantities used by different guests in the room…

2.3.3. Definition of Maysir

Maysir, which literally translates to gambling, is an Arabic term originating from "Al-yasar," (easy) signifying effortless gain, or obtaining wealth through random chance, regardless of whether it infringes upon the rights of others and causes harm to them (Mijahat, 2016). The Holy Qur'an employs the term "Maisir" to denote the prohibition of gambling and betting (Ayub, 2007).

In Islamic finance, gambling is characterized as any exchange between two parties seeking to acquire ownership of a specific asset or service, resulting in a benefit for one party and harm to others, often by associating the transaction with a specific action or event (Mijahat, 2016).

According to (Mijahat, 2016) qualify as gambling, at least three specific elements must be present:

- The presence of wagering assets or subjects being bet on by both parties involved in gambling.
- The presence of a game used to ascertain winners and losers.
- The victor will acquire the property staked, whether it's a portion or the entirety, while the defeated party will forfeit their wagered assets.

2.4. BASIC ELEMENTS OF ISLAMIC CONTRACTS

In Islam, people's possessions are held as sacred, which is why it is not allowed to handle them without proper justification. In order to safeguard this principle, Islam prohibits the wrongful acquisition of others' belongings through actions such as theft, embezzlement, usurpation, bribery, deceit, and any other illicit methods of amassing wealth.

From this perspective, the Sharia has defined the contract and its elements so that matters are clear for people to engage in exchanges, and they do not fall into the prohibited and forbidden act, which is consuming people's wealth unjustly.

2.4.1. Definition of Islamic Contacts

In Islamic law, a contract, or "Aqd," signifies a binding connection between two parties, akin to a tie or not. A contract refers to a legally recognized and influential commitment between two individuals, exemplified by one party's proposal and the other party's acceptance, which significantly affects the contract's subject matter (Alam et al., 2019).

A contract (or "aqd") is commonly defined in legal and technical terms by most jurists in two distinct ways. Firstly, in a narrower interpretation, it is described as "the coming together of declarations from both parties involved in a legal manner according to Shariah, leading to a mutual agreement that manifests in their subject matter." In its broader context, a contract is defined as iltizam (Qadri & Iqbal, 2021).

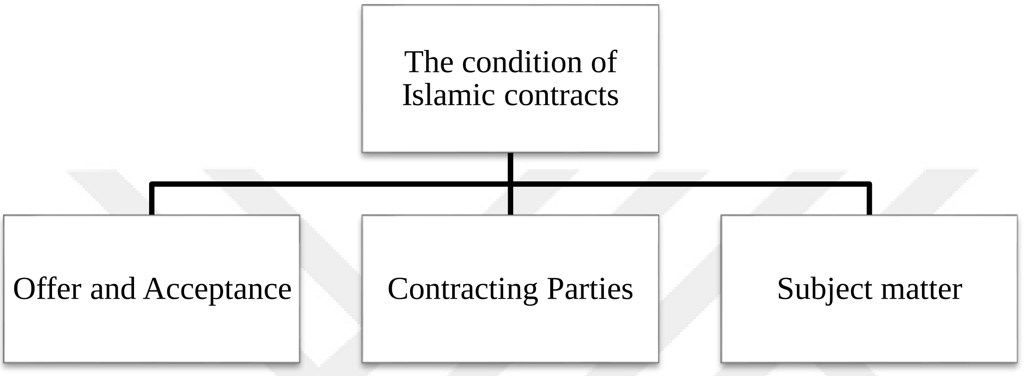
Islamic jurists, drawing from the principles outlined in the Quran and the narrations of Prophet Muhammad, have cultivated the laws governing contracts in Islam.

A contract within the realm of fiqh-al-muamalat cannot be considered valid unless it incorporates the following essential components (Fig 2.4) (Alam et al., 2019):

- Offeree and offeror: A contract cannot be established when only one party is involved. While a single intention can give rise to different obligations, like debt forgiveness or a donation declaration, these actions do not qualify as contracts according to Shariah.
- Offer and acceptance: It is necessary for a contract to have an offer (Ijab) and acceptance (Qabul). It is derived from an Arabic word “Ijab wa Qabul”. An offer can be made by either party to the contract, which can be seller or buyer. The offer and acceptance can be communicated verbally or in a written form, conveyed through physical signals or gestures, or facilitated by an intermediary.
- Subject matter: The contract's subject matter, comprising the item and consideration, must be legal, in existence at the time of the contract, capable of being delivered, and known to both parties in terms of quality, quantity, and specifications. Furthermore, in the context of pricing, it is essential to establish the price at the moment of contract formation and avoid setting it at a later date. This measure is taken to remove any potential ambiguity that could potentially result in a disagreement. It is

crucial that the subject matter does not encompass materials or actions that contravene Shariah principles.

Figure 3: The conditions of Islamic contracts



Source: Auther

2.5. CHARACTERISTICS OF ISLAMIC FINANCE

Islamic finance, guided by Islamic principles, stems from Islamic economics and is distinguished by its prohibition of interest, uncertainty, and the financing of detrimental activities(Kammer et al., 2015) therefore, Islamic finance's uniqueness compared to a conventional financial system stems from its foundation on the distinctive characteristics of Islamic economics, as outlined by Islamic principles(Azid, 2010, Asutay, 2013).

The principles of Islam strongly prioritize the welfare of society by promoting social justice and fostering inclusion among its members. Islamic principles encompass the ideals of promoting social justice, inclusivity, and the equitable distribution of resources across all segments of society (Mohieldin et al., 2011). Islamic economics, in turn, focus on: (1) the regulations governing individual conduct regarding resource allocation, production, exchange, distribution, and redistribution; (2) the practical outcomes resulting from these regulations, and (3) an incentive structure for adhering to these regulations, along with suggestions for shifting from the conventional economic system to the Islamic economic model (Mohieldin et al., 2011).

Islamic finance places a strong emphasis on risk-sharing agreements that ensure a balanced distribution of gains and losses between both parties involved, whether it's the lender or the borrower. In a traditional risk-sharing contract, both the investor (financier) and the entrepreneur or debtor are exposed to the possibility of bearing risk and reaping profits, if any (Khan, 2010). This underscores the importance of risk-sharing agreements that facilitate financial inclusion by offering Shariah-compliant financial products, like microfinancing and microinsurance, which are accessible to both micro-enterprises and underserved individuals in society (Mohieldin et al., 2011).

According to Qadri, (2019), we can summarize the features of Islamic economics in points.

Table 1: Features of Islamic economics in points.

Benefits of buying and selling	
Earning a livelihood	The divine law of Almighty Allah does not demand that humans should deny themselves the essential blessings required for their well-being and growth. Instead, the faithful are duty-bound to engage in productive work. Earning a livelihood is, in fact, a form of service to the Almighty.

Moderation in earning	Jābir b. ‘Abd Allāh (may Allah be well pleased with him and his father) quoted Allah's Messenger (Allah bless him and give him peace) as advising moderation in one's pursuit of a livelihood, He said what he meant: Dear individuals, exercise mindfulness of Allah and maintain a balanced approach when pursuing your livelihood, as no person shall depart from this world until they have received their allotted sustenance, even if it arrives gradually. Hence, maintain your reverence for Allah and adopt a moderate approach in seeking your sustenance by acquiring what is permissible and refraining from what is prohibited.

The ability to work without restrictions.	Each individual possesses the inherent right to actively pursue employment, secure a job, or engage in a profession of their preference, be it in fields like agriculture, business, or farming. This fundamental right must not be withheld from anyone based on factors such as skin color, caste, ethnicity, or religious beliefs.
Acquisition of riches	In order to survive, humans have an obligation to earn and accumulate wealth as a means of sustaining themselves.
Sharing one's personal assets	The Prophet of Islam, may Allah bless him and grant him peace, established a communal bond where people regarded themselves as custodians of their own belongings. He encouraged acts of charity to assist the less fortunate, enabling them to share in the resources of the more affluent members of the community.

Halal consumption	Instead of indulging in forbidden and impure foods, believers partake in and enjoy nourishing meals. Any foods and drinks that Allah has forbidden can have adverse effects on one's well-being.
Balanced approach	Believers keep to a fair equilibrium in various aspects of life, such as their expenditures, while adhering to the core principles of divine guidance, avoiding both extravagance and excessive frugality.

Punctual disbursement of salaries	Workers should receive their compensation immediately upon finishing their tasks, and any actions that involve withholding payments or causing delays can be frustrating for employees, and Islam considers such actions a type of oppression.

Giving zakat	Zakāt, also known as mandated almsgiving, is allocated to benefit those who lack resources and are in need, fostering a connection between individuals with means and those without in the community.
Donations made for charitable purposes	Ardent believers are driven by a desire to please the Almighty as they extend their compassion and support to those who are in need, including the impoverished, the disadvantaged, and the disabled. The equitable sharing of resources has the potential to alleviate economic hardships.
Social welfare	Those with the means have a duty to assist those who are less fortunate to ensure that no one lacks life's essentials.
Rights to property	The central tenet of Islamic economic ideology revolves around the concept of resource ownership, which is perceived as a sacred trust and the responsible management of these resources serves as a

	measure of one's faith.
Justice and benevolence	The Qur'ān underscores the importance of justice and fairness in trade, and in accordance with this divine guidance, those who are faithful participants in commerce must refrain from any dishonesty when selling a product.

Restrictive elements of selling and exchanging	
Oaths	The Prophet (may Allah bless him and grant him peace) cautioned against making solemn oaths when engaged in the act of selling.
Monopoly	If someone hoards grain for forty nights in the pursuit of higher prices, they will be absolved of their obligation to Allah, and Allah will disown them.

Uncertainties within a contractual agreement	Sales involving uncertainty, deceit, and exploitation are deemed illegal. Islamic economic principles aim to establish a fair society in which customers can buy products with full trust in the honesty of sellers.
Usury	The act of accumulating wealth through the unlawful practice of charging interest is explicitly forbidden.
Engaging in the trade of forbidden items	The Qur'an prohibits the consumption of items that are forbidden, and it is also unlawful to engage in their sale and trade. Forbidden items include carrion, blood, swine, animals not slaughtered with the invocation of Allah's name, and the meat of animals dedicated to idols.
Price determination	Islamic economic theory asserts that the market should operate with freedom, adhering to the inherent forces of supply and demand. In essence, prices are determined by factors outside of human manipulation. In keeping with this fundamental concept, individuals are discouraged from

	intervening in the open
	market by setting prices and establishing profit margins.
Miserliness	Traders should cultivate the practice of generosity, which holds special significance for the Divine.

2.6. ISLAMIC FINANCIAL PRODUCTS

The Islamic finance sector engages in a wide range of economic endeavors within the domain of financial services. The principle of socially responsible investing underscores the importance of directing investments away from detrimental activities and instead focusing them on economically sustainable endeavors (Majeethia & Bose, 2014).

Similar to traditional systems, Islamic financial institutions also utilize a range of instruments, which are contingent upon the nature of the project and the needs of stakeholders. Here is a concise overview of financial products within the Islamic finance framework:

2.6.1 Financing products

Products for profit-sharing financing

- Musharakah (or Partnership contract): Equity participation involves all partners contributing to investments and management, with profits distributed based on a predetermined ratio, while losses are allocated based on the equity contributions made by each partner. The participation in Islamic financial institutions today is conducted in two main forms, which are:

1. Permanent Musharakah: This model entails a collaborative partnership where both the bank and its customer-client actively participate in fostering entrepreneurship and providing capital. In this arrangement, the bank invests in a company (the customer) and, in return, receives an annual portion of the profits based on a mutually agreed profit-sharing ratio.

The steps below provide an illustration of how Permanent Musharakah operates:

i. The client presents the bank with a business plan, outlining roles, responsibilities, profit and loss sharing percentages, and other details, in order to initiate a new business venture.

ii. The bank will perform the required assessment using the documentation and other essential information supplied by the customer. After a successful review, a Musharakah agreement will be signed between the customer and the bank to establish a business partnership.

iii. The customer and the bank will each provide as example an equal share of the capital (in a 50:50 ratio) to establish the business venture and jointly oversee its operations, adhering to the predetermined terms outlined in the contract.

iv. If the business venture generates a profit, it will be distributed between the two parties based on the predetermined agreement.

v. If there is a loss incurred in the business venture, the loss will be distributed between the two parties based on their respective capital shares.

2. Diminishing Musharaka: Diminishing Musharakah represents a unique variant of Musharakah, ultimately leading to the client's ownership of the asset or project. In this agreement, the bank has no plans to maintain a long-term association with the client. This model is widely employed for residential property financing. The house is subsequently rented to the customer through the Ijarah (leasing) arrangement, with the rental income being distributed between the bank and the customer in accordance with a predetermined ratio. Apart from the rental fee, the customer will make a predetermined payment to acquire the bank's capital share.

The steps below provide an illustration of how diminishing Musharakah operates in the context of house financing:

i. The client initiates contact with the housing developer/seller to express interest in a specific property or asset they want to purchase. They then ask the seller to furnish them with a price estimate and any pertinent information.

ii. The seller furnishes the customer with the requested price quotation, brochure, terms and conditions, and any other pertinent information. iii. The customer presents the required supporting documents related to the asset they wish to finance through a diminishing Musharakah agreement when they approach the bank. In this arrangement, the customer commits to leasing the house and making payments towards the capital portion to eventually acquire ownership of the property.

iv. The bank will establish a diminishing Musharakah contract with explicit terms regarding profit-sharing, loss-sharing, monthly rental payments, repayment of the capital portion, tenure, and other essential conditions, all contingent on the customer's creditworthiness.

v. The customer and the bank jointly provide the capital to acquire the house and fulfill their responsibilities according to the pre-established terms in the contract.

vi. The bank rents the house to the customer according to the rental terms specified in the contract.

vii. The customer settles the rental fee along with the predetermined fixed capital portion as per the agreed payment arrangement.

viii. The recurring rental payment will be divided between the customer and the bank based on their respective ownership percentages at any given time, as these percentages fluctuate when the customer redeems the bank's capital portion. The customer's proportion of sharing will grow with each rental payment.

ix. Ownership of the house becomes complete once both the entire rental payment and the bank's capital portion have been made, ultimately resulting in full ownership by the customer.

- Mudaraba (or Partnership in profit): is a concept in Islamic finance and economics. It refers to a financial arrangement or contract between two parties, where one party provides the capital (referred to as the "rab al-maal") and the other party contributes their skills, expertise, and effort (referred to as the "mudarib") to manage a business or investment project.

  Under the Mudaraba contract, the profits generated from the venture are shared between the two parties based on a pre-agreed ratio or percentage, while any losses incurred are borne solely by the capital provider. The mudarib, who manages the project, is typically responsible for making all business decisions and undertaking the day-to-day operations.

- Qard Hasan : Qard Hasan, in Islamic finance, refers to a benevolent loan provided without any interest or profit expectations. It is a concept rooted in Islamic principles that promote charity, goodwill, and assistance to those in need.

  Qard Hasan is a loan extended by a lender to a borrower with the intention of helping the borrower overcome financial difficulties or fulfill a genuine need. Unlike conventional loans, Qard Hasan does not involve the charging or accumulation of any interest or additional fees. The borrower is obligated to repay the principal amount in full, without any extra cost.

- Wakalah: Wakalah, in Islamic finance, refers to a contract or agency agreement where one party (the principal or investor) appoints another party (the agent or wakil) to act on their behalf in conducting specific financial transactions or managing their assets. It is a form of delegation of authority with specified powers and responsibilities. Under the Wakalah contract, the principal entrusts the agent with the task of carrying out specific activities such as investment, trading, or managing business operations. The agent, in turn, is expected to act in the best interests of the principal and within the boundaries set by the contract and Islamic principles.

The principal retains ownership of the assets or funds involved in the Wakalah arrangement, while the agent's role is to provide expertise, skills, and efforts in the execution of the designated tasks. The agent is typically compensated through a preagreed fee or commission, which is determined and agreed upon in advance.

- Hawalah: Hawalah, in Islamic finance, is a legal transfer of debt or obligation from one person to another. It is a mechanism used to settle outstanding debts or obligations without the need for physical exchange of cash or assets.

  Under the concept of Hawalah, the debtor (also known as the muhawil) transfers their debt or liability to another person (known as the mahil), who becomes responsible for fulfilling the debt on behalf of the original debtor. The mahil, upon accepting the transfer, assumes the legal and financial responsibility of repaying the debt to the creditor.

  It is important to note that Hawalah should be conducted in accordance with Islamic principles, such as consent, fairness, and avoidance of interest-based transactions. It serves as a mechanism for the transfer of financial obligations while adhering to the ethical guidelines of Islamic finance.

2.6.2. Financing products that involve pre-purchasing in advance

- Murabahah: it is a widely used Islamic financing and trading concept that involves the sale of goods or assets at a marked-up price, where the profit margin is explicitly disclosed to the buyer. It is a form of a cost-plus sale, where the seller explicitly states the cost of the item and adds an agreed-upon profit margin.

  Under the Murabahah arrangement, a buyer approaches a seller (often a financial institution) with the intention of purchasing a specific item or asset. The seller then acquires the requested item and sells it to the buyer at a mutually agreed-upon price. The price includes the actual cost of the item plus an agreed-upon profit margin, which is determined and disclosed upfront.

  Murabahah transactions are characterized by transparency, as the buyer knows the actual cost and profit margin added by the seller. The profit margin is predetermined and agreed upon before the transaction takes place. The buyer can either pay the entire amount upfront or opt for installment payments over a specified period.

- Istisna: it refers to a type of contract used for manufacturing or construction purposes. It is a forward contract in which a buyer places an order with a seller to manufacture or construct a specific asset within a specified timeframe. The seller agrees to deliver the asset upon completion, according to the agreed-upon specifications.

  In an Istisna contract, the buyer usually pays a portion of the total price upfront as a down payment or progress payment, and the remaining amount is paid upon delivery. The seller is responsible for the manufacturing or construction process and bears the risk of any potential defects or delays.

  From a Shariah perspective, Istisna contracts comply with Islamic principles by avoiding the element of interest (riba) and promoting risk-sharing between the parties involved.

- Bai al-Salam or Salam sale: it is a concept in Islamic finance that refers to a forward sale contract. It is a type of transaction where a buyer pays in advance for the delivery of specific goods at a future date. The seller undertakes to deliver the goods on the agreed-upon date, and the buyer pays the full purchase price upfront.

  In a Bai al-Salam contract, the buyer pays the price of the goods in advance, while the delivery of the goods takes place at a later date. The seller, who receives the payment upfront, undertakes the responsibility to deliver the specified goods on the agreed-upon date.

  From a Shariah perspective, Bai al-Salam contracts comply with Islamic principles by avoiding the element of interest (riba) and enabling the financing of specific transactions. They serve as a mechanism to provide liquidity and address the needs of certain economic activities, particularly in agricultural sectors where there may be a time gap between production and delivery.

- Ijarah and Ijarah Muthia Bittamlik: Ijarah, also known as lease or rental, is an Islamic finance concept that involves a contract of leasing or renting assets or services. It is a contract in which the owner of an asset (lessor) transfers the right to use the asset to another party (lessee) in exchange for periodic rental payments.

  Under an Ijarah contract, the lessor retains ownership of the asset throughout the lease term, while the lessee enjoys the benefits and usage rights of the asset. The lessor is responsible for the maintenance and upkeep of the asset, while the lessee is obligated to make regular rental payments.

  On the other hand, Ijarah Muthia Bittamlik, also known as Ijarah Muntahia Bittamleek or Ijarah with a promise to transfer ownership, is a variation of the Ijarah contract. In this arrangement, the lessor agrees to sell the leased assets to the lessee at the end of the lease term or upon fulfilling certain conditions.

The Ijarah Muthia Bittamlik contract combines elements of leasing and gradual ownership transfer. It allows individuals or businesses to acquire an asset gradually while enjoying its benefits and usage during the lease period.

2.6.3. Deposit products

- Wadi’ah: Wadi'ah, also known as safekeeping or custody, is an Islamic finance concept that refers to a contract in which a person (the custodian or the bank) agrees to hold and safeguard the property or funds of another person (the depositor or the customer) for safekeeping.

  In a Wadi'ah contract, the custodian takes responsibility for the safekeeping of the entrusted property or funds and agrees to return them to the depositor upon request or at a specified time. The custodian is not permitted to utilize or invest the funds without explicit permission from the depositor.

  Wadi'ah is commonly used in Islamic banking for deposit accounts. Customers can deposit their funds with an Islamic bank under a Wadi'ah arrangement, and the bank acts as the custodian, providing a secure place for the funds. The bank may not utilize the deposited funds for its own purposes or investments unless authorized by the depositor under a separate agreement.

  From a Shariah perspective, Wadi'ah complies with Islamic principles by providing a mechanism for safekeeping and protecting the property or funds of individuals. It is based on the concept of trust and emphasizes the responsibility of the custodian to fulfill their duty of safeguarding the entrusted assets.
- Tawarruq: Tawarruq, also known as commodity murabahah, is an Islamic finance concept that involves a series of interconnected

transactions. It is a structure used to provide financing where a person (the customer) in need of funds purchases a commodity on deferred payment terms from a seller, typically a bank. The customer then sells the commodity in the market for cash to obtain immediate liquidity. It is referred to as Al-'inah if the consumer sells that product back to the bank.

2.6.4. Insurance product

- Takaful is an Islamic insurance concept based on the principles of cooperation, mutual assistance, and shared responsibility. It is a type of insurance that operates in compliance with Islamic principles, avoiding interest (riba), uncertainty (gharar), and gambling (maysir).

  In a takaful arrangement, a group of participants or policyholders pool their contributions or premiums into a common fund. This fund is managed by a takaful operator or company. The purpose of the fund is to provide financial protection and coverage to the participants against specified risks or losses.

2.6.5. Sukuk or Islamic bonds

- Sukuk, also known as Islamic bonds, are financial instruments that comply with Islamic principles. Sukuk represent ownership or beneficial interest in an underlying asset or project and provide investors with a share in the ownership or returns generated by the asset. Unlike conventional bonds that pay interest, sukuk are structured to generate returns through the sharing of profits or cash flows from the underlying asset.

2.7. THE CONCEPT OF FINANCIAL INCLUSION

The topic of financial inclusion, which pertains to individuals and small businesses' access to fundamental financial services, is a subject of extensive discussion among policymakers, financial industry participants, and academics. This frequently revolves around the question of whether financial inclusion can truly contribute to achieving inclusive societal development.

2.7.1. Definition of financial inclusion

In the literature, the concept of financial inclusion, or its counterpart, financial exclusion, is framed within the broader context of societal inclusion or exclusion.

According to Leyshon and Thrift, (1995) provided an initial definition that characterizes financial exclusion as the result of processes that hinder specific social groups and individuals from accessing the formal financial system. As per (Sinclair, 2001) research, financial exclusion refers to the incapacity to obtain essential financial services in a suitable manner. Exclusion can arise from issues related to accessibility, terms, costs, promotion, or voluntary withdrawal due to adverse experiences or perceptions.

Nevertheless, there are significant differences in how terms are employed and the subtle distinctions they carry. The World Bank provided its interpretation of financial inclusion, describing it as financial inclusion refers to the provision of responsible and sustainable financial products and services, such as transactions, payments, savings, credit, and insurance, which are both useful and affordable, catering to the needs of individuals and businesses (WB, 2015).

The Asian Development Bank has defined financial inclusion as the convenient availability of affordable financial services for both households and businesses (Turner, 2014).

Atkinson and Messy characterized it as the endeavor to enhance the accessibility, affordability, and adequacy of various regulated financial products and services, along with expanding their utilization among all sections of society. This is achieved through the adoption of tailored traditional and innovative methods, including financial education and awareness, to foster financial well-being and promote economic and social inclusion (Atkinson & Messy, 2014).

The Alliance for Financial Inclusion presents four perspectives commonly used to define financial inclusion, listed in order of complexity: access, quality, usage, and welfare (Alliance Financial Inclusion, 2010). Similarly, the Consultative Group to Assist the Poor (CGAP) envisions a world where everyone can access and effectively utilize financial services to enhance their lives. This vision does not entail creating separate financial markets for the underprivileged (Morgan & Zhang, 2018). Lastly, Chakraborty defines financial inclusion as the process of ensuring that vulnerable groups, including lowerincome and disadvantaged sections of society, have affordable access to suitable financial products and services in a fair and transparent manner through mainstream institutional players (Chakrabarty, 2011).

The idea of financial inclusion encompasses the concept of financial exclusion, which is also referred to as being "unbanked." Financial exclusion refers to the situation where individuals do not utilize any financial services or products offered by formal financial institutions, including microfinance institutions (MFIs). However, it is crucial to differentiate between individuals who voluntarily choose not to use such services and products for various reasons, and those who desire to use them but face obstacles like inadequate funds, limited access, high costs, lack of knowledge or understanding, lack of trust, or identity requirements.

2.7.2. The importance of financial inclusion

The question may arise: What is the importance of financial inclusion? In response to this question, the importance can be encapsulated in three main factors:

2.7.2.1. Economic Citizenship

There is a collection of research, focusing on the documentation of the negative consequences linked to financial exclusion. The initial indication of these negative consequences is the incapacity of specific individuals and groups to engage in the institutions favored by the majority (Barry, 1998).

Bank account access, credit availability, and insurance coverage are now widely recognized as crucial pillars for effective personal financial management and engaging in transactions within contemporary societies (Speak & Graham, 1999).

Speak and Graham (1999) delineate several crucial private services that can now be regarded as vital for maintaining any substantial level of genuine economic sustainability. These encompass food retail, energy provision, telecommunication services, and basic financial amenities like a bank account and elementary credit options. Active engagement in today's economic and social landscape necessitates access to essential services, a state often referred to as economic citizenship.

2.7.2.2. Reduce costs

Access to a variety of other benefits and conveniences is contingent upon having access to financial services (Howarth et al., 1999). Managing bills and household finances can be a greater challenge and often more costly for families lacking a bank account, as it may lead to additional fees associated with cash payments, thereby raising the expenses for essential services (Unit, 2000).

2.7.2.3. Budgeting for effectiveness and autonomy

Having access to regulated credit can empower individuals to seize control of their lives and shape their own destinies by expanding options and possibilities (Team, 1999). Many opportunities are limited when individuals lack access to suitable financial services. For instance, those without a bank account will encounter significant challenges when it comes to making choices or engaging in activities that require one (Taylor, 1998).

2.7.3. Obstacles to Achieving Financial Inclusivity

Financial exclusion, also known as a consequence of social exclusion or vice versa, denotes a scenario in which certain segments of society face difficulties in accessing fundamental financial services. Beck and others., (2007) contend that assuming information asymmetry, uncertainty, and transaction costs all result in access problems is insufficient. Instead, they propose that the issue of access should be discerned based on constraints within the demand and supply dynamics. In their work, Beg and Mullick (2016), emphasize the differentiation between access and utilization. While individuals might possess the means to access certain services, they may choose not to use them, possibly due to religious, educational, or cultural considerations.

Income inadequacy or market imperfections can create obstacles to accessing banking services on the supply side. These hindrances include annual fees, minimum balances for checking accounts, documentation requirements for account openings, loan processing times, lending product delivery channels, and fees tied to specific transactions like ATM usage, as highlighted by (Park & Mercado, 2015) and (Hannig & Jansen, 2011).

In its 2013 Global Financial Report, the World Bank (Group, 2013) delineated four prevalent categories of financial exclusion. According to the report, voluntary financial exclusion stems from religious and social influences, while involuntary exclusion arises from market imperfections and inadequate contract enforcement.

On the other hand, we can summarize the main points that are considered a major barrier to financial inclusion, as presented by (Babajic et al., 2018):

- Distrust toward formal financial services and their providers: Establishing a strong sense of trust is essential for financial institutions and their clients, particularly in less developed countries where incidents within banks have eroded confidence. Building a financial relationship becomes challenging when clients perceive a significant divide between themselves and financial institutions.
- Factors of culture, society, and religion: Certain individuals encounter limitations in their ability to access and utilize financial services due to factors such as their religious beliefs, ethnicity, gender, age, or other socio-demographic characteristics.

- Insufficient data regarding service providers and their offerings: Inexperienced clients, particularly those who may not fully grasp the advantages of formal financial services.

  or remain unaware of the various providers in the market, lack access to information concerning financial products, services, conditions, and terms.
- Insufficiently developed distribution methods: Given the challenges of limited mobility and inadequate infrastructure, reaching the nearest access point becomes even more burdensome and costly, necessitating financial institutions to establish their affiliations or ATMs in rural and less accessible areas.
- Insufficient funding and restricted financial capacity: This particularly pertains to vulnerable population groups, like young people and women in rural areas, who lack income and any other type of capital for collateral.
- Complicated process for opening an account: Banks may, in certain instances, demand extensive documentation for the account opening process, which can result in a prolonged procedure.
- Knowledge of finance: Acquiring a grasp of essential economic principles like compound interest and savings is vital for making well-informed financial choices.

2.7.4. Dimensions that assess financial inclusion

Financial inclusion involves various aspects and is multi-dimensional. As an example, (Bhuvana & Vasantha, 2016) endeavored to gauge the extent of financial inclusion by crafting an index that comprises three facets of financial inclusion: bank accessibility, deposit availability, and credit accessibility. The first dimension encompasses a wide range of banking services, such as handling deposits and transfers, typically involving transmission services carried out by financial institutions through various channels like branches, ATMs, and mobile banking. The second dimension includes services related to assurance, insurance, credit, savings, and private pension administration. Within this dimension, customers are offered financial protection for long-term and medium-term income fluctuations. Lastly, the third dimension pertains to the provision of loans to support entrepreneurial endeavors, such as facilitating import/export trade or providing startup capital, for enterprising individuals.

In contrast, Hannig & Jansen, 2011) proposed that endeavors aimed at broadening financial service accessibility should integrate insights regarding obstacles to inclusion. These hurdles may encompass both geographic and socioeconomic elements, including the lack of nearby bank branches, limited access to financial services for particular income or ethnic demographics, as well as intricate documentation, elevated maintenance costs, and marketing challenges. In a general sense, the assessment of financial inclusion can be divided into dimensions according to (Hannig & Jansen, 2011):

2.7.4.1. Financial Services Accessibility

Interest in financial inclusion and access to finance has been steadily increasing on a global scale, with a particular focus on emerging and developing economies. The capacity to utilize financial services and products provided by official institutions involves comprehending the various factors influencing accessibility, including potential obstacles like the associated costs and the physical proximity of bank service locations (e.g., branches and ATMs) for conducting any financial transaction. A straightforward measure for evaluating access can be obtained by tallying the number of active accounts across different financial institutions and estimating the percentage of the population with an account. Policymakers are growing more apprehensive about the limited dissemination of financial intermediation and markets among the population and various economic sectors, recognizing the potential adverse effects on aspects such as economic growth, income distribution, and poverty levels (Beck et al., 2007).

2.7.4.2. The delivery of financial products and services quality

Quality is reflected in consumers' attitudes and opinions about the products currently at their disposal, encompassing their overall experience. As a result, the assessment of quality can be utilized to assess the extent and depth of the connection between the financial service provider and the consumer, taking into account the available choices and the consumers' comprehension of those choices and their consequences (Hannig & Jansen, 2011). Currently, the ever-evolving technology landscape has compelled financial institutions to reconsider their approaches to delivering top-notch services to all clients. Banks can gain a competitive advantage by enhancing service quality, as it correlates with increased revenues, improved cross-selling ratios, and heightened customer retention (Kumari, 2021).

Indicator of use the utilization of formal financial services serves as a vital metric for assessing the inclusivity of financial systems. Nevertheless, there is variability in its adoption among individuals and various financial products. Multiple research studies have endeavored to gauge the utilization of diverse financial products in order to assess inclusiveness.

Demirguc-Kunt and Klapper, (2012) conducted the pioneering research that examined individuals' utilization of financial services, shedding light on how people approach savings, payments, borrowing, and risk management. To illustrate, it was revealed that approximately half of unbanked adults worldwide resided in developing economies, accounting for 54%, while in high-income countries, this figure was merely 11%. Beyond the basic adoption of banking services, usage focuses more on the permanence and depth of financial service and product use. Hence determining usage requires more details about the regularity, frequency, and duration of use over time (Hannig & Jansen, 2011).

2.7.4.3. Indicator of Availability

The availability of financial services is considered the foremost indicator of financial inclusion since it signifies the initial access point to these services**.** The study by Sarma, (2012) expressed the view that an all-encompassing financial service entails providing individuals with readily accessible services, exemplified by the ratio of bank branches and ATMs to the population. Consequently, the availability of branches will facilitate individuals in accessing financial services to open accounts.

The study by Demirguc-Kunt and Klapper, (2012) suggested that having a formal bank account acts as an initial step toward accessing formal financial services. This, in turn, enables individuals to access payment, remittance, and receipt services, encourages savings, and simplifies the process of obtaining loans. Additionally, ATMs provide essential services for account holders, including withdrawals, deposits, and payment services.

CHAPTER 3: OVERVIEW OF THE FINANCIAL SECTOR IN MAURITANIA

3.1. FINANCIAL SECTOR STRUCTURE

At the end of the 2022 fiscal year, the banking sector consists of 17 banks, including 7 Islamic banks and 3 banks with predominantly foreign capital. As for the microfinance sector, in 2022, it comprises 30 microfinance institutions (MFIs) with the approval of 2 new MFIs, including one in category A and one in category B. Additionally, the financial sector landscape in 2022 includes 17 insurance companies, 2 pension schemes, and 7 payment institutions.

According to the World Bank and the International Monetary Fund, the characteristics shown in the evaluation they conducted between the years 2005-2006 of the financial sector in Mauritania confirm the following characteristics of this sector, and despite the fact that the evaluation took years, it still has the same characteristics (Racheboeuf & Brice, 2004):

- Financial services are insufficiently developed, with commercial banks holding 88% of the sector's assets, and bank loans and deposits constituting less than 20% of the GDP.
- Banks maintain satisfactory profitability levels even with inadequate provisions for nonperforming loans.
- The concentration of commercial bank capital among a restricted group of shareholders, leading to heightened risk concentration, undermines the resilience of the system and hinders its effective engagement in supporting economic activities.
- The limited variety of products and services provided by banks leads to a heightened vulnerability of their financial performance to fluctuations in interest rates, given that the products they generate serve as their primary income source.

- The focus of commercial bank transactions primarily revolves around import-export and short-term financing, leading to a virtual exclusion of promoters involved in incomegenerating activities and micro and small enterprises (MSE) from accessing bank financing.

On the other hand, Microfinance in Mauritania exhibits a dual nature, with its youthfulness evident, having commenced in the 1990s, and the lack of dependable data on the sector, making it challenging to accurately determine microfinance's market share within the financial sector. Nonetheless, it is approximated that microfinance participants constitute merely 1% of the financial sector's assets (Racheboeuf & Brice, 2004).

3.2. BANKING SUPERVISION AND REGULATION ACTIVITY

The supervision of the central bank covers all aspects of regulatory activities, ranging from the issuance of credits to various activities related to the operations of banks. Additionally, the central bank has the authority to address and lead activities related to resolving issues faced by banks experiencing difficulties. The central bank exercises its control through two integrated approaches (Helwig et al., 2023):

i. The documentary oversight, which involves the exploitation and analysis of the legal permits directed by those subjects to supervision to the bank in order to highlight deficiencies related to the vigilance system and identify areas of risk and vulnerability, ensuring their follow-up.
ii. Field supervision: Aimed at verifying the accuracy of permits and deepening investigations to highlight vulnerabilities and fragilities that cannot be assessed remotely. Field supervision is carried out based on an annual control missions program adopted by the Council for Prudence, Settlement, and Financial Stability. The preparation of this program falls within a methodology based on identified risks, allowing the compilation of a list of institutions subject to supervision, considered the most fragile.

3.2.1. The prudential rules

The Central Bank has established a prudential regulatory framework covering all commonly recognized risks to which banks are exposed: liquidity risk, solvency risk, foreign exchange risk, immobilization of short-term resources, asset degradation risk, and concentration risk. This regulatory framework is aligned with international Basel 3 norms and standards, particularly for the definition and calculation of capital, liquidity ratio, and solvency ratio, which are key factors for the resilience and solidity of the banking system. These ratios are the subject of monthly declarations and specific monitoring by the services of the General Directorate of Banking Supervision and Financial Stability (Helwig et al., 2023).

3.2.2.The liquidity

The liquidity ratio aims to ensure that banks have a sufficient amount of liquid assets in cash or other assets that can be quickly converted into cash in the short term, with little or no loss of value. This is to enable them to fulfill their commitments to depositors, especially withdrawals, transfers, and fund transfers. The Basel III standards applicable to the liquidity ratio have been in effect since 2020. According to these standards, high-quality liquid assets (cash, balances with the central bank, and government securities) must continuously and fully cover net cash outflows over a one-month horizon (BCM, 2021).

3.2.3. Net capital

Equity is the most stable permanent resource that a bank possesses. It is primarily composed of core equity, also known as hardcore, consisting of the bank's share capital and reserves accumulated from undistributed profits. These funds are non-repayable in the event of liquidation and serve as a last resort. Next comes the complementary capital, which is made up of resources provided to the bank by its shareholders and meets certain eligibility and stability conditions (BCM, 2021).

3.3. The balance between net equity and fixed assets

The balance ratio between net equity and fixed assets aims to mitigate the risk of financing fixed values with short-term resources, especially customer deposits. The fixed assets consist mainly of tangible assets, equity securities, and capitalized expenses. They must be covered to the extent of 100% by net equity (Helwig et al., 2023).

3.3.1. The solvency ratio

The banks must continuously hold a total amount of net capital without value, equivalent to at least 10% of their risk-weighted exposure. These risk-weighted exposures are measured based on their significance. For example, certain assets, such as cash and exposures guaranteed by the government, are considered safe assets and do not require capital requirements. On the other hand, other assets, such as loans to other banks, businesses, or individuals, are riskier and therefore have a capital requirement. The purpose of these capital requirements is to absorb the losses inherent in these exposures (Helwig et al., 2023).

The international Basel III standards regarding the solvency ratio have been in effect since 2020. The main innovations of these standards include the consideration of operational and currency risks, the weighting of all asset exposures, and the individual weighting of counterparties to these exposures. Also included in the international Basel III standards is the establishment of a common equity tier 1 capital ratio (7.5%) and new requirements for common equity tier 1 capital related to additional conservation buffers, countercyclical buffers, and specific buffers for systemically important banks (BCM, 2021).

3.3.2. The profitability of banks

The key performance indicators of banks have continued to show significant improvement in the past few years. Thus, the intermediation margin recorded an increase of 22.9% in 2022. Commissions rose from MRU 2.7 billion in 2021 to MRU 3.7 billion in 2022, representing an increase of MRU 1.0 billion and

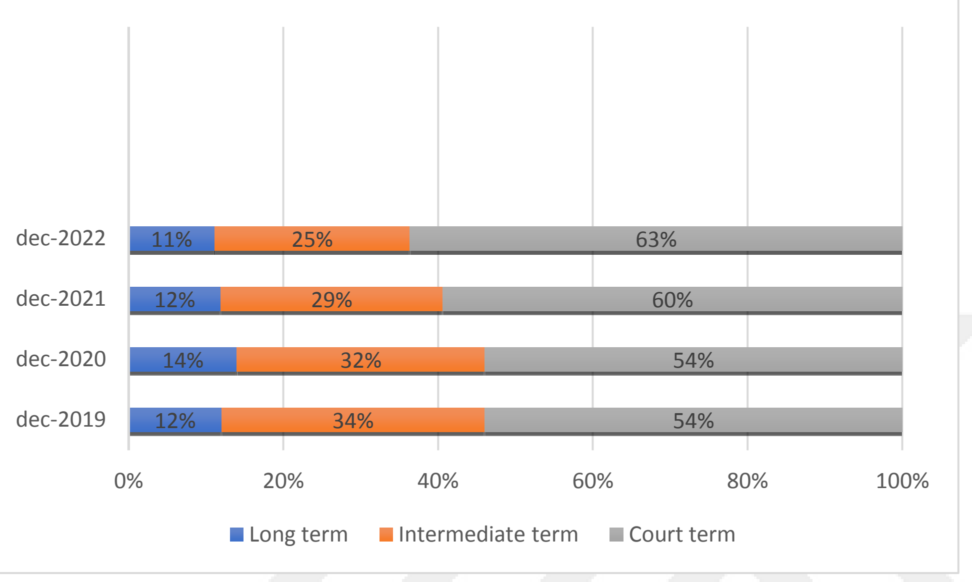
37.2% in relative value. Consequently, the net banking income (NBI) increased by 32.9% in 2022, rising from MRU 6.7 billion in 2021 to MRU 8.8 billion in 2022(Helwig et al., 2023).

3.4. THE ACTIVITY OF THE FINANCIAL SECTOR

3.4.1. The distribution of credits by banks.

Banking activities continue to be dominated by intermediation, deposit collection, and credit distribution. Credit outstanding represents 62.2% of the total consolidated assets of the banking sector. Overall, in 2022, the main activity indicators show a significant improvement. Indeed, customer deposits increased by MRU 6.8 billion in 2022, representing a relative increase of 7.4%. The total deposits rose from MRU 91.8 billion at the end of December 2021 to MRU 98.6 billion at the end of December 2022. This evolution corresponds to an average monthly increase of MRU 563.6 million or 0.6% in relative value. Regarding the structure of loans distributed to customers, it is still characterized by the predominance of short-term loans, which account for 63.3% of net loans granted, relegating long and medium-term loans to the second position, representing 36.7% of the outstanding balance of these loans. As for the credit conditions, the average borrowing rate remained almost stable at around 10.4% in 2022 (Helwig et al., 2023).

Figure 4: Distribution of credit by bank.



Source: Based on data from (Helwig et al., 2023)

3.4.2. The structure of deposits

The structure of deposits at the end of 2022 is still dominated by demand deposits, which account for 85.5% of the total deposits, while time deposits and savings represent 7.5% and 7.0% of the total deposits, respectively, on the same date.

Table 2: Structure and evolution of deposits.

Structure and evolution of deposits (In billions of MRU)	Des.2020	Des.2021	Des.2022
Demand deposits (a)	59	77,6	84,3
Term deposits (b)	6,9	7,7	7,4
savings account (c)	5,7	6,5	6,9
Total deposits	**71,6**	**91,8**	**98,6**

Percentage (a) / Total deposits	82,4%	84,5%	85,5%
Pourcentage (b) / Total dépôts	9,7%	8,4%	7,5%
Pourcentage (c) / Total dépôts	8,0%	7,1%	7,0%

Source: Based on data from (Helwig et al., 2023)

3.5. THE MICROFINANCE INSTITUTIONS

As of the end of 2022, the microfinance sector has 32 active microfinance institutions and 3 networks, namely: PROCAPEC/CAPEC; Caisse d'Epargne et de Crédit Djiké-Mutuelle (CECD-M) ; and l'Union Nationale des Mutuelles d'Investissement du Crédit Oasien (UNMICO). In fact, the sector has 14 institutions of category B and one of category C. In 2022, the microfinance sector did not experience any new approvals. Across the entire network, only three establishments operate nationwide, with the others primarily located in Nouakchott and Nouadhibou (Helwig et al., 2023).

3.5.1. The deposits

The deposits recorded a 6.4% increase in 2022 compared to 2021. This increase mainly comes from Category B MFIs. Savings and credit unions (CAPEC) hold over 65% of these deposits, while other institutions hold 35% (Helwig et al., 2023).

3.5.2. The credits

At the end of the year 2022, microfinance institutions reported a net loan portfolio of MRU 682.2 million. These loans increased by 23.3% compared to the year 2021. CAPECs hold 37%, while the share of other institutions accounts for 63%. The outstanding loans distributed by microfinance institutions as of December 31, 2022, represent approximately 1% of the total credit in the banking system at the same date (Helwig et al., 2023).

CHAPTER 4: ISLAMIC FINANCE AND FINANCIAL INCLUSION IN MAURITANIA

4.1. INTRODUCTION

The motivations for adopting the Islamic finance industry vary from one country to another. The primary motivation in Mauritania was to increase financial inclusion. Many Mauritanians are considered outside the realm of formal financial services for example, the number of bank accounts does not exceed 400,000 accounts(Guendouz & Gaaloul, 2020). This is due to Mauritanian citizens' reluctance to engage in many financial transactions through financial institutions that they believe do not adhere to Islamic Sharia principles. Consequently, this has led to the flourishing of transactions with informal institutions (shadow banking) or transactions outside the formal economic cycle.

By adopting Islamic finance, Mauritania achieved a dual objective. On one hand, it increased financial inclusion rates, with figures indicating an increase in the number of bank customers from 10% to 25% in 2018(Guendouz & Gaaloul, 2020). On the other hand, it modernized and developed the banking organization, which was suffering from many structural problems.

Undoubtedly, the increase in the number of account holders in banks will allow for an increase in liquidity in the banking system, thereby enhancing banks' ability to provide more financing to institutions and companies, which will positively impact the economy as a whole.

4.2. A BRIEF HISTORY OF THE DEVELOPMENT OF ISLAMIC BANKS IN MAURITANIA

Mauritania has witnessed a growing interest in Islamic transactions in recent times, with some commercial banks opting to open Islamic branches, while others have decided to completely transition to the Islamic system. Islamic banking in Mauritania has evolved along three paths, the first of which was the Mauritanian Islamic Bank, established in 1985. Despite its initial success, this experience ultimately failed after the complete withdrawal of the Baraka Group in 2001. To keep Islamic banks absent from the Mauritanian scene until the year 2009, Islamic banking entered the market through the establishment of six banks: Popular Bank of Mauritania(PBM), Bank Muamelat As Sahiha (BMS), Islamic Bank of Mauritania (IBM), Banque Al Wava Mauritanienne Islamique (BAMIS), Islamic Financing Bank (IFB), New Bank of Mauritania (NBM), and Mauritanian Investment Bank (MIB). In 2017, the market share of Islamic banks was 33% of the Mauritanian banking market.

We can summarize the historical stages that Islamic finance in Mauritania has gone through as follows:

Table 3: Historical stages that Islamic finance in Mauritania.

Phase 1	The first phase, the discovery in 1985 (the case of the Islamic Mauritanian Bank El Wafa (BAMIS)).
Phase 2	The second phase, known as the retreat phase (2001-2011), saw timid progress through the development of Islamic windows in conventional banks; an example is the National Bank of Mauritania (BNM) with the launch of the ALWATANI networks.

Phase 3	The third phase, a renewed confidence or "comeback" (from 2011 to the present), is characterized by a true revolution in the banking landscape, marked by a growing interest in Islamic banking.

Source: Author

4.2. REGULATORY LAWS FOR ISLAMIC FINANCE

Legally, Islamic banks still face the issue of harmonization with the Central Bank, despite the modifications made to the Mauritanian banking system in 1995 that referred to Islamic financial institutions, such as banks that do not resort to the use of interest rates and practice the profitand-loss sharing system. However, the legal framework of 2007 remains a challenge, The regulation that defines the regulation of credit institutions does not provide for specific provisions for banking activities inspired by the principles of Islamic Sharia, nor does it refer to them to raise the issue of compatibility of the legal framework for banking activities in Mauritania with the specificities of Islamic banking. However, during the year 2018, the law on lending institutions was amended to integrate various Islamic financial products distinct from traditional financing. Additionally, the amendment to the law, which includes the basic framework of the central bank, led to the establishment of an external monitoring committee tasked with ensuring that the activities of Islamic banks comply with Sharia (BCM, 2018):

4.2.1. Establishment of the Sharia-compliant Authority

Law No. 034.2018 has been enacted, which includes the statutes of the Central Bank of Mauritania. According to its first article, the law aims to define the tasks, objectives, powers, tools, and operations of the Central Bank of Mauritania established under Law No. 73/118 dated May 30, 1973, which repeals and replaces Law No. 004-2007 dated January 12, 2007.

These amendments have come to align with the Law of Banking Institutions, which was recently amended to introduce regulations governing the operation of Islamic banks. To complete the picture, recognizing Islamic banks requires respecting their distinctive feature, which is the establishment of a compliance body in accordance with the provisions of Islamic law. We will mention here the composition of this organization and the tasks assigned to it:

4.2.1.1. Formation of the Organization

In Article eight states that the decision-making bodies in the central bank are composed of the Governor, assisted by a Deputy Governor, the General Council, the Monetary Policy Council, the Reserves and Financial Stability Council. Additionally, the central bank also has a committee for compliance with Sharia principles and an auditing committee with an external auditor and monitor (BCM, 2018).

The Compliance Committee has been directly attached to the General Council of the Central Bank, which is the entity that determines the overall policies of the central bank and is responsible for its administrative aspect. Therefore, it is responsible for selecting committee members, composed of five members for a renewable term of two years, according to specified conditions (BCM, 2018):

- Good conduct and behavior
- The academic configuration, which means the exclusion of non-academics.
- Their competencies in the field of Islamic finance and Islamic law contribute to specialization in the field.
- The extensive experience in the field and various domains means being a person of comprehensive culture.

The tasks entrusted to the authority.

The powers granted to the authority have been specified by Article 37 of Law 034-2018 as follows (BCM, 2018):

- The Sharia Board prepares studies and provides its opinion on issues related to the application of Islamic law in the field of Islamic finance and in the Islamic financial operations that the central bank intends to undertake.
- The Shariah committee is responsible for preparing studies and providing its opinion on the compliance of Islamic banks and all other approved institutions, or those authorized by the central bank, with Shariah principles in their Islamic operations.
- It alone is the authorized entity for licensing Islamic financial products to ensure their compliance with Islamic Sharia principles.
- Give an opinion regarding the intervention measures related to financial instruments raised by the Monetary Policy Council.

4.3. PROSPECTS AND CHALLENGES OF ISLAMIC FINANCE IN MAURITANIA

4.3.1. The challenges facing Islamic banks in Mauritania

The key challenges facing Islamic banks in Mauritania can be summarized in the following:

- The difficulties and problems faced by Islamic banks as a result of being subject to the control of the central bank in a state are similar to those faced by traditional banks that deal with interest, especially when it comes to credit granting and deposit acceptance. For example, when Islamic banks need liquidity, they cannot turn to the central bank because it does not deal with them according to their Islamic principles that prohibit interest. Instead, the central bank deals with them in the same way it deals with traditional banks by imposing interest on the loans it provides.

- The concentration of financing policies in Islamic banks on murabaha (cost-plus financing) and short-term projects has led to a deviation in investment and financing methods. Islamic jurisprudential assemblies and experts emphasize safeguarding Islamic banks by expanding areas of Mudarabah (profit-sharing), participation, reducing Murabaha, and prioritizing long-term investment projects.
- People's lack of understanding of the nature of Islamic banks is evident through some depositors' demand for interest, as is the case in traditional banks.
- There is a shortage of trained human capital in Islamic banking, with a lack of experience and a relative novelty in the field for both employees and those dealing with it. This may lead to a lack of adherence to Islamic values, ethics, and legal principles in most cases.
- The shortcomings in the development and implementation of various forms of Islamic financing often rely predominantly in all Islamic banks on the concept of Mudarabah.
- The problem of customers' delay in repaying their dues puts the bank in a dilemma that has not been addressed with a clear legal or jurisprudential adaptation at the level of Islamic banks in Mauritania until now.
- The absence or weakness of detailed Sharia supervision for the operations of these banks paves the way for trickery or prohibited banking activities. Most banks do not give significant attention to the presence of the relevant Sharia authority to approve or prohibit the contracts the bank engages in. This leaves serious clients in doubt about the legitimacy of these banks, and it undermines their consent to Islamic law.

- The intense competition from traditional banks, where it is known that the legal framework is detailed for them, while Islamic banks continue to operate in a legally distorted environment.
- There is no specific framework regulating Islamic windows or even verifying their actual existence in traditional banks.

Finally, the absence of a comprehensive Islamic market in Mauritania, due to the novelty of the covenant with Islamic banking, whether among the majority of those working in it or dealing with it, may lead in many cases to non-compliance with Islamic values, ethics, and legal principles.

4.3.2. The Future Prospects of Islamic Finance in Mauritania

The banking sector in Mauritania is considered promising despite the significant challenges we have outlined. This has led the government to increasingly focus on it, although those in charge believe that it still falls short of the desired level. However, there are factors that give hope for the promising future of this sector. One such factor is the Central Bank Law and its addition to the committee for Sharia compliance, which has been a significant development for the sector.

Where Islamic banks emerged in Mauritania in the mid-eighties and the legislator intervened four times after their emergence to regulate the banking sector, with the general nature of these interventions being the disregard of this new industry.

The first intervention was in 1988 under Legal Order No. 50-88, which did not indicate any reference to these banks. The second intervention was within Legal Order No. 42-91 issued in December 1991, which also did not mention Islamic banks. The third intervention came under Law No. 11 of 1995, which stated in its second article that its provisions apply to banks that implement profit and loss-sharing systems and rely on interest-free systems. This mention represented the first recognition by the Mauritanian legislator of the existence of a non-traditional type of bank based on another system inspired by Islamic law, not dealing with interest. The legislator did not choose to name them Islamic banks, but merely mentioned their characteristics, which are profit and loss-sharing and not dealing with interest. Islamic banks did not receive formal recognition until the legislator intervened for the fourth time in 2007 under Legal Order No. 20, which repealed Law No. 11 of 1995. Legal Order No. 20 replaced it, with the legislator retracting from that mention, as its texts were devoid of any reference to Islamic banking(Al-Hasan, 2016).

Additionally, the recent approval by the Mauritanian government of a draft decree that includes the establishment of a special transfer account called the Mauritanian Zakat House is noteworthy. This is related to the creation of a national entity responsible for collecting and disbursing Zakat in accordance with its legitimate financial institutions. This move enhances the sector, as Islamic finance generally consists of two main components: profit and non-profit activities (Finance, 2023).

On the other hand, the central bank has become a member of the Malaysia Stock Exchange, enabling it to access a commodities exchange platform that supports issuance operations. The national currency, the Ouguiya, has also been accepted among the traded currencies in this market. The Islamic bonds for the general treasury have strengthened, exceeding 1.5 billion Ouguiya, representing more than 22% of the total public bonds (Maouloud, 2023).

Presently, 88% of the securities listed on Bursa Malaysia adhere to Shariah principles, constituting approximately two-thirds of Malaysia's market capitalization. The exchange employs three rigorous and transparent Shariah screening processes facilitated by the FTSE Group, Yasaar Ltd, and the Securities Commission's Shariah Advisory Council (SAC). The FTSE Bursa Malaysia Hijrah Shariah index (FBM Hijrah Shariah) and the FTSE Bursa Malaysia EMAS Shariah index (FBM EMAS Shariah) serve as comprehensive benchmarks for Shariah-compliant investment. Malaysia stands as one of the leading centers for sukuk issuance globally, contributing to around two-thirds of the total outstanding sukuk worldwide. In 2010, Bursa Malaysia led global exchanges with sukuk program listings valued at a total of USD 27.3 billion(Bursa Malaysia - The Malaysia International Islamic Financial Centre (MIFC), n.d.).

All these factors make the future prospects of this sector very promising, provided that efforts are made to overcome obstacles, accelerate necessary reforms, and draw from successful experiences in the Islamic world.

4.4. FINANCIAL INCLUSION IN MAURITANIA

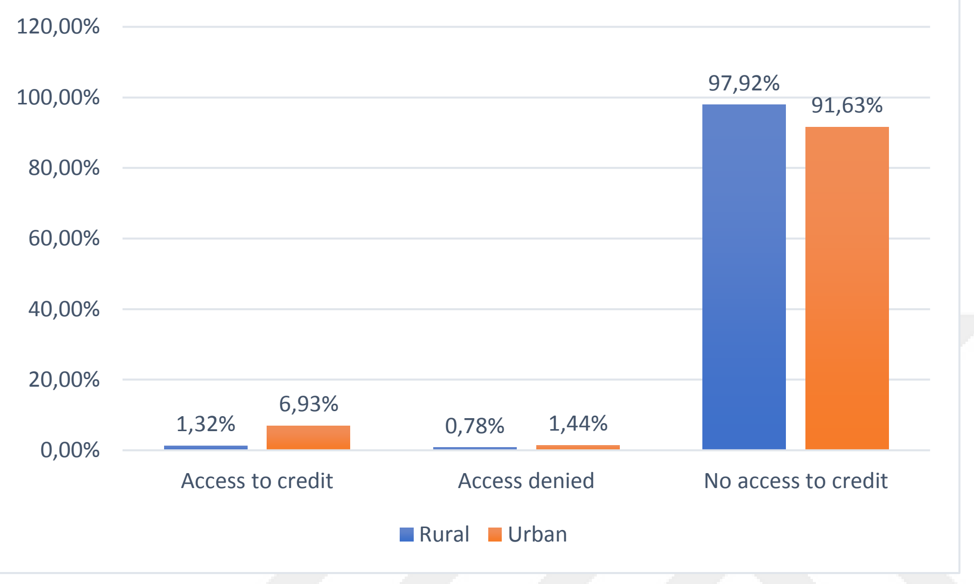
4.4.1. State of Financial Inclusion in Mauritania

Mauritania has considerably less information accessible compared to other countries, necessitating the amalgamation of various databases to obtain relevant information. So, in this part of the study, we relied on two main references, although they are not very recent, they are considered reliable sources in this regard, as the first one is a study the data was acquired from the 2014 Survey of Household Living Conditions conducted by the National Statistics Office (ONS).

The collaboration between the ONS, the Ministry of Economic Development, the World Bank, and Afristat has led to the creation of this survey. It encompasses consumer lending data from 2014, featuring a sample of 9557 individuals who provided information about their credit access, along with various demographic and geographical variables (Honneur et al., 2015).

According to 2014 data from the ONS, urban areas had a credit access rate of only 6.93%, while rural areas had a rate of 1.32%, as illustrated in Figure 2. The figure additionally highlights instances where individuals may possess a bank account but face denial of credit access (Honneur et al., 2015).

Figure 5: Credit demand in different regions of Mauritania.



Source: The Survey of Household Living Conditions (ONS - Mauritanie, 2015)

We gathered information from the latest FINDEX report by Demirguc-Kunt and others, (2018). In this analysis, we employed the count of accounts as a measure for inclusion in the financial system. Our comparison included Mauritania with Togo (a West African nation of similar development status), India (a developing country with the largest microfinance sector), and France (a developed country serving as a benchmark for potential achievements).

Additionally, averages from developing countries served as reference points.

Table 4: Comparison of financial inclusion through bank account usage: Mauritania in contrast to several chosen nations.

% of individuals aged 15 above	Mauritania	Togo	India	France	Developing
Having a Bank Account	21%	45%	80%	94%	63%
Having a Bank	26%	53%	83%	97%	67%

Account, male					
Having a Bank Account, female	15%	38	77%	91%	59%
Having a Bank Account, in the labor force	29%	49%	84%	98%	53%
Having a Bank Account, out of the labor force	12%	35%	75%	89%	53%
Having a Bank Account, young adults (% ages 15-24)	13%	44%	71%	70%	66%
Having a bank account, older adults (% ages 25+)	25%	46%	83%	98%	54%
Having a Bank Account, primary education, or less	14%	38%	75%	80%	72%
Having a Bank Account, secondary education, or more	32%	56%	85%	97%	54%
Having a Bank Account, poorest 40%	13%	35%	77%	93%	54%

Having a Bank Account, richest 60%	26%	52%	82%	94%	69%
Having a Bank Account, rural	15%	45%	79%	94%	62%

Source: Based on data from (Demirguc-Kunt et al., 2018).

Examining the quantity of bank accounts reveals that Mauritania exhibits the lowest level of financial inclusion, as only 21% of its population possesses an account. This contrasts with the developing world's average of approximately 63%. Despite being smaller in size and having fewer resources (resulting in a lower per capita income) than Mauritania, Togo, an African country, demonstrates a higher level of financial inclusion, averaging at 45%. Additionally, 22% of individuals with a bank account refrain from utilizing it annually, and merely 7% avail themselves of loans from financial institutions. In Mauritania, a mere 15% of women possess accounts. The omission of women in this context can be clarified by the societal expectation in Mauritania, where men are traditionally responsible for providing, and women may not find it necessary to participate in the financial system. However, when considering the broader picture, merely 26% of men are part of the financial system.

Examining the inclusion of both workers and non-workers, it is evident that a mere 29% of workers possess accounts. The primary factor is that government employees are required to possess an account, whereas those in the private sector can opt to receive their salaries in cash or open an account. Nevertheless, there has been a rise in banking accessibility as an increasing number of companies refrain from disbursing cash to their employees. Additionally, workers who receive their wages directly into a bank account become eligible for loans.

It is anticipated that the least affluent 40% will have an account, given that only

13% currently do. When just 26% of the population is encompassed, it is foreseeable that the impact on the poorest segment will be more pronounced.

Frequently, when discussing financial inclusion, our focus tends to be on incorporating the most economically disadvantaged members of society. Nevertheless, in Mauritania, even affluent individuals, particularly in rural areas, are excluded from the financial system. This indicates the presence of demand-side institutional barriers such as cultural norms, extending beyond the supply-side economic obstacles of income and guarantees.

4.4.2. Reasons and Barriers to Financial Inclusion in Mauritania

According to World Bank data (Demirguc-Kunt et al., 2018), these factors can be summarized in two main factors:

4.4.2.1. Voluntary reasons

- Insufficiency of funds: In many instances, individuals rationalize their exclusion by citing inadequate funds, a perspective that is reasonable. If one is utilizing their entire daily income, there is minimal incentive to bear transaction costs associated with traveling to a distant bank and withdrawing money during conventional banking hours.
  This percentage represents approximately 51% of Mauritania.
- A member of the family possesses an account: Some justify their financial exclusion by having an account within their family, believing that a single-family account can suffice for the entire family. This segment represents 13% of the surveyed opinions.
- Distrust in financial institutions: Some Mauritanians refrain from opening bank accounts due to their lack of trust in financial institutions. This may be attributed to the nomadic nature of the population and the relative modernity of financial institutions. However, this segment is not significant in the targeted demographic, representing only 9% of it.

- Religiose reasons: Indications reveal that merely 6% of the participants cite religious grounds as the basis for abstaining from credit utilization. Specifically, within Islam, the imposition of interest rates on loans is prohibited. However, the prohibition lies in acquiring a loan with interest, elucidating the growing prevalence of Islamic financial products such as Murabaha in recent years.
- No need for financial services: 3% of the participants have expressed that there is no need for financial services. This trend may be explained by individuals under social care, such as those with disabilities, making them not reliant on these services. Alternatively, they may belong to a group that still operates outside of conventional currency systems. For example, if someone wants clothing, they might exchange it for some sheep, and so on.

4.4.2.2. Involuntary reasons

- Financial services are too expensive: In Nouakchott, the cost of opening a bank account range from 5000 Mauritanian Ouguiya (equivalent to 12.5 euros) to 10000 Mauritanian Ouguiya (equivalent to 25 euros), contributing to the perception that it is too expensive for 24% of the respondents to acquire a bank account.
- Financial institutions are located at a considerable distance: ATMs have become a recent development in Mauritania, primarily found in select major urban areas. Depositing money in a bank result in automatic conversion into savings, as withdrawals are not readily available. Additionally, credit card usage is uncommon for purchases, and there are few stores that accept credit card transactions. This explains the reluctance of 16% of the participants to open a bank account.
- Insufficient documentation: 19% of the participants consider the necessary documents for opening a bank account to be one of the main

obstacles preventing them from opening a bank account, as it involves several documents that they perceive as more than necessary.

4.4.3. Mauritania Financial Inclusion Strategies

Financial inclusion represents a strategic priority within the framework of modernizing the financial sector, a commitment undertaken by the Mauritanian authorities. This reform is carried out through which the Central Bank of Mauritania plays a fundamental role. The vision of the Central Bank of Mauritania regarding financial inclusion aims to be comprehensive. It seeks to address both the supply side by enhancing the regulatory framework and supervision, developing payment infrastructure, and promoting innovations, and the demand side by enhancing consumer protection in financial services, improving access to these financial services, and providing financial education to the population.

To implement this vision, the central bank took several steps, translating this vision into reality.

According to (For et al., 2023):

- Supporting small and medium-sized enterprises and addressing the shortage in long-term banking resources for productive investment financing and job creation, especially for small and medium-sized companies.
- At the end of 2020, the central bank established a company under Mauritanian law in partnership with the African Guarantee Fund as a strategic partner. This fund will provide partial guarantees for bank loans to small and medium-sized enterprises to enhance access to financing and contribute to the creation of employment opportunities.
- The work aims to enhance the organizational framework for mobile banking services to reduce the amount of cash in the economy and promote financial inclusion for the most impoverished population

sectors. Parliament has enacted legislation regarding mobile banking services and payment methods in 2021.

- With the support of the African Development Bank (AfDB), BCM is developing a National Financial Inclusion Strategy (SNIF). A national survey has been launched to gather data on financial inclusion. The work related to the SNIF fund will be implemented with the assistance of consultants appointed by the Alliance for Financial Inclusion (AFI) as part of its technical assistance, which specifically includes diagnosing various studies and implementing the governance unit.

CHAPTER 5: FINDING AND RESULT

5.1. INTRODUCTION

This chapter describes the summary of the study we conducted regarding the potential role of Islamic finance in accelerating financial inclusion in Mauritania. A total of 159 individuals from various demographics and age groups responded to this study.

5.2. DEMOGRAPHIC PROFILES

Table 5: Demographic and Professional Distribution.

Demographic Variables		**Count**	**Percent (%)**
Gender	**Male**	111	69.8
	Female	48	30.2
Age	**From 18 to 25 years**	90	56.6
	From 26 to 35 years	58	36.5
	From 36 to 45 years	7	4.4
	From 46 to 55 years	2	1.3
	More than 56	2	1.3

Professional Status	**Employee**	48	30.2
	Not working	13	8.2
	Student	96	60.4

Source: Prepared by the author relying on outputs SPSS

From the table (5), it is evident that 111 individuals in the study represent 69.8% of males, while 48 individuals represent 30.2% of females. On the other hand, the percentage of those aged 18 to 25 years is 90 individuals, accounting for 56.6% of the study sample. In contrast, the percentage of those aged 26 to 35 years is 58 individuals, representing 36.5% of the study sample. The age group of 36 to 45 years comprises 7 individuals, constituting 4.4%, while the percentage of those aged 46 to 55 years and those over 56 years is 2 individuals each, accounting for 1.3% each.

In terms of professional status, it appears that 96 individuals from the study are students, representing 60.4%. The percentage of employed individuals is 48, constituting 30.2% of the study population. Meanwhile, the unemployment rate is 13 individuals, accounting for 8.2% of the study participants.

5.3. MAURITANIA'S FINANCIAL INCLUSION GAP : PERCEPTIONS AND OBSTACLES

This section aims to shed light on the challenges and opportunities for expanding financial inclusion in Mauritania, providing valuable information for policymakers, financial institutions, and development organizations working to improve access to financial services in the country.

Table 6: Analyzing Financial Inclusion in Mauritania.

QUESTIONS	Frequency		Percent (%)	Mean	Std. deviation
How do you evaluate the current level of the inclusiveness of the finances in Mauritania?	Very low	52	32.7	2.71	1.699
	Low	48	30.2		
	Very high	2	1.3		
	High	4	2.5		
	Average	51	32.1		
Have you used any financial services or products?	Banking services over the phone	118	58.1	0.255	0.116
	Traditional bank services (savings account, current account)	54	26.6		
	Islamic finance products	13	6.4		
	Microfinance services	10	4.9		

	I did not use any services	8	3.9		
Are you satisfied with the services and financial products available to you currently through banks?	Completely dissatisfied	18	11.3	3.05	1.20
	Dissatisfied to some extent	42	26.4		
	Satisfied to some extent	27	17		
	Very satisfied	58	36.5		
	Neutral	14	8.8		
What are the barriers you believe hinder people in Mauritania from accessing financial services?	Religious reasons	33	11.8	0.352	0.218
	Lack of awareness of available services	96	34.3		
	High fees and costs	58	20.7		
	Many documents'	44	15.7		

	requirements				
	Limited access to banks or financial institutions	49	17.5		

Source: Prepared by the author relying on outputs SPSS.

From table number (6), it is evident based on the ratios and frequencies for this axis of study that the paragraph ranking first is the one addressing "How do you assess the current level of financial inclusion in Mauritania?" with a standard deviation of (1.699) and an arithmetic mean of (2.71). The total is extremely low, with 52 respondents out of 159, representing 32.7%. On the other hand, 48 respondents, representing 30.2%, considered it to be low, while 4 respondents, representing 2.5%, considered it to be high. However, 51 respondents, representing 32.1%, considered it to be at an average level in the country.

In the second address, the paragraph states (Have you used any financial services or products?) came with a standard deviation of 0.116 and an average of 0.255. Out of 159 respondents, 58.1% indicated that they only used banking services via phone, while 58 participants, accounting for 26.6%, reported having accounts with traditional banks. Additionally, 13 individuals, representing 6.4%, expressed using Islamic financial services, and 10 respondents, or 4.9%, highlighted their use of microfinance services. Furthermore, 8 individuals from the sample, equivalent to 3.9%, stated that they did not use any specific services.

In the third position came the paragraph that states (Are you satisfied with the financial services and products currently available to you through banks?) with a standard deviation of 0.218 and an arithmetic mean of 3.05. This is based on

18 of the surveyed sample, representing 11.3%, expressing complete dissatisfaction with the services available. Additionally, 42 respondents, accounting for 26.4%, expressed varying degrees of dissatisfaction. The study also revealed that 58 respondents, or 36.5%, expressed complete satisfaction with the available services, while 27 respondents, or 17%, indicated partial satisfaction. Furthermore, 14 respondents, or 8.8%, preferred to remain neutral.

In the fourth position, paragraph (0.218) deviated statistically, and the arithmetic mean (0.352) showed that 34.3% of the respondents, a total of 96, believe that the main barrier to accessing financial services in Mauritania is a lack of awareness of available services. Additionally, 20.7% of the respondents, a total of 58, identified high fees and costs as the primary obstacle. Another 17%, or 49 respondents, expressed the belief that limited access to financial institutions is the main hindrance. Furthermore, 15.7%, representing 44 respondents, stated that excessive documentation and requirements from financial institutions act as a barrier to financial inclusion. Finally, 11.8%, or 33 respondents, considered the main obstacle to financial inclusion to be the prohibition of interest in the debt system.

5.3. PUBLIC PERCEPTIONS OF ISLAMIC FINANCE AND ITS ROLE IN FINANCIAL INCLUSION

Islamic finance has emerged as a rapidly growing segment of the global financial landscape, attracting increasing attention for its ethical and inclusive principles. However, public perceptions of Islamic finance vary widely across different regions and demographics. Understanding these perceptions is crucial for assessing its potential impact on financial inclusion.

Table 7: Exploring Perspectives on Islamic Finance and Financial Inclusion in Mauritania.

Questions		**Frequency**	**Percent (%)**	**Mean**	**Std.Deviation**
Are you aware of any products or financial services, Islamic finance is currently available in Mauritania?	Yes	90	56.6	0.57	0.49
	No	69	43.4		
Do you consider that the funding of Islamic can be more attractive than traditional financing?	Yes	146	92.4	0.92	0.26
	No	12	7.6		
Do you think that the funding of Islam can contribute to accelerating financial	Strongly Agree	88	55.3	3.34	0.62
	Agree	64	40.3		
	Strongly Disagree	3	1.9		

inclusion in Mauritania?	Disagree	4	2.5		
	Neutral	0	0		
What aspects do you believe Islamic finance can help enhance financial inclusion in Mauritania?	Funds without interest	90	27.4	0.41	0.27
	Support for small and medium enterprises	79	24		
	Social welfare programs (such as Zakat)	62	18.8		
	Participation system in profit and loss	54	16.4		
	The principles of moral investment	44	13.4		

Do you have any challenges or concerns related to the implementation of the funding of Islam in Mauritania?	Yes	74	46.5	0.47	0.50
	No	85	53.5		

Source: Prepared by the author relying on outputs SPSS.

Table (7) shows the frequency and percentage of responses from the study participants on the axis related to (Islamic finance and financial inclusion: the reality of the Thirth). The first question in this axis, which states (Are you aware of any producشts or financial services, Islamic finance is currently available in Mauritania?), has a standard deviation of 0.49 and an average of 0.57, with a total of 90 respondents out of 159 answered yes, while 69 from the same sample answered no.

The second question (Do you consider that the funding of Islamic can be more attractive than traditional?) has a standard deviation of 0.26, and an average of 0.92, with 146 of the respondents answering yes, while 12 of the respondents answered no.

The third question (Do you think that the funding of Islam can contribute to accelerating financial inclusion in Mauritania?) has a standard deviation of 0.62 and an average of 3.34, with a total of 88 respondents strongly agreeing, 64 agreeing, 3 respondents strongly disagreeing, and 4 respondents also disagreeing.

The fourth question (What aspects do you believe Islamic finance can help enhance financial inclusion in Mauritania?) has a standard deviation of 0.27 and an average of 0.41, with 90 respondents stating that the attractiveness of Islamic finance lies in interest-free financing, 79 stating that its attractiveness lies in the support it provides to small and medium-sized enterprises, 62 stating that its attractiveness also lies in social welfare programs such as zakat, 54 of the respondents saw that the profit and loss sharing principle is the most important factor of attraction, but 44 of the respondents expressed its attractiveness through the moral values represented in it.

The fifth question in this axis (Do you have any challenges or concerns related to the implementation of the funding of Islam in Mauritania?) has a standard deviation of 0.50 and an average of 0.47, with 74 of the respondents answering yes and 85 answering no.

5.4. AWARENESS OF THE CONCEPT OF FINANCIAL INCLUSION AND ISLAMIC FINANCE

Imagine a world where everyone has access to essential financial services like savings, loans, and insurance, regardless of their background or income. That's the dream of financial inclusion. But for many, particularly in Muslim-majority communities, traditional financial systems might not resonate due to ethical or religious concerns. This is where Islamic finance steps in, offering a unique perspective on managing money while adhering to Sharia principles. That’s why this section aims to study how awareness of Islamic finance effects on financial inclusion.

Table 8: Exploring Perspectives on Financial Inclusion and Islamic Funding Awareness in Mauritania.

Questions		**Frequency**	**Percent (%)**	**Mean**	**Std. Deviation**
What is the level of awareness of the concept of financial inclusion and funding, of islam in Mauritania?	Very low	60	37.7	1.77	0.78
	Low	85	53.5		
	Very high	2	1.3		
	High	11	6.9		
	Average	0	0		
Do you think that increased awareness and education about the funding of Islam can enhance financial inclusion in Mauritania?	Strongly Agree	74	46.5	3.42	0.66
	Agree	75	47.2		
	Strongly Disagree	5	3.1		
	Disagree	5	3.1		
	Neutral	0	0		
What are the	Workshops and	106	22.2	0.60	0.33

best ways, in your opinion, to raise awareness about Islamic finance?	seminars				
	Online articles and videos	111	23.3		
	TV and radio programs	82	17.2		
	Social media platforms	115	24.1		
	Printed brochures and publications	63	13.2		

Source: Prepared by the author relying on outputs SPSS.

Table (8) shows the frequencies and percentages of the study participants' responses to the axis. The first question of this axis addressed the effectiveness of (What is the level of awareness of the concept of financial inclusion and funding, of Islam in Mauritania?). The standard deviation was 0.78 and the mean was 1.77, with 37.7% of the respondents considering the effectiveness to be very low, 53.5% considering it to be low, and only 1.3% considering it to be very high, and 6.9% considering them to be high. None of the respondents considered their views to be average.

The second question addressed the respondents' agreement with the statement (Do you think that increased awareness and education about the funding of Islam can enhance financial inclusion in Mauritania?). The standard deviation was 0.66 and the mean was 3.42, with 46.5% of the respondents strongly agreeing with the statement, 47.2% agreeing with the statement, only 3.1% strongly disagreeing and 3.1% disagreeing.

The third question of this axis addressed the respondents' opinion of the effectiveness of (What are the best ways, in your opinion, to raise awareness about Islamic finance?). The standard deviation was 0.33 and the mean was 0.66, with 22.2% of the respondents considering (Workshops and seminars) to be the most effective, 23.3% considering (Online articles and videos) to be highly impactful, 24.1% considering (Social media platforms) to be successful means, 17.2% considering (TV and radio programs) to be high-impact, and 13.2% considering (Printed brochures and publications) to be the most effective.

CHAPTER 6: CONCLUSION AND RECOMMENDATIONS

6.1. CONCLUSION

The significance of financial inclusion in alleviating poverty, fostering shared prosperity, bolstering economic growth, and promoting inclusive sustainable development is widely acknowledged. Additionally, it plays a crucial role in encouraging savings and optimizing resource allocation. The literature examined in this study consistently highlights the contribution of Islamic finance in achieving financial inclusion by offering Shariah-compliant, risk-sharing financial products and services. Furthermore, Islamic social finance instruments like Zakah, Sadaqah, and Waqaf complement the commercial facets in this regard.

As a result of the great importance of the subject of financial inclusion, as there is no sustainable development without promoting financial inclusion, this study came to shed light on the status of financial inclusion in Mauritania and what efforts are exerted on it. The research also sought to know the role that Islamic finance can play in this regard. In both concepts, 159 people of different ages participated in this questionnaire, and after analyzing these responses, the study found that Islamic finance enjoys great acceptance among different people in Mauritania, but as a result of its relative modernity, where it began to develop during the last decade, the awareness of it is still weak. The study also found that there is an important group of respondents who have self-exclusion as a result of their refusal to deal with interest for religious reasons, and this is what makes the financial industry.

Islam is an effective factor in financial inclusion The study also showed that Islamic finance as a result of the fact that it contains several products based on the principle of profit and loss sharing made its attractiveness more. Despite the weakness revealed by the study regarding the concept of financial inclusion, many respondents felt that Islamic finance, if applied correctly and effectively, would be a strong lever for financial inclusion. The respondents to this questionnaire agreed that mastery of assets for services requires enabling rural and remote villages to access assets for services, as Mauritania is a sprawling country in which Islamic banks have adopted the same approach as conventional banks, focusing on major cities and neglecting the rest, which made a lot of transactions are carried out outside the financial system as there are no services available in rural areas and small towns. The study also showed that many are reluctant to open an account in a financial institution due to the multiple and complex procedures, whether documentary requirements or friendly ones.

The participants also expressed that concerted work to create awareness of Islamic finance will enhance financial inclusion as all the people are Muslims attracted by religious identity to anything good for religion. It can be concluded from all these that Islamic finance based on Sharia and ethical principles will be an attractive factor for the various segments in Mauritania. Also, reducing the barriers placed is important for those who wish to open a bank account and benefit from services. We had asked in the questionnaire a question about how to enhance awareness of financial inclusion and Islamic finance. The answer was varied, but it points in one direction, which is that concerted efforts in this issue are especially basic. Between the institutions working in this field and the field of media.

6.2. RECOMMENDATION

Considering the above and to enhance the role of Islamic financial institutions in achieving financial inclusion, it is essential to focus on the development of Islamic financial institutions to promote financial stability by attracting large segments of society to engage with the official financial sector. The study recommends the following:

1. Work on a procedure for more investigative studies on the awareness of opportunities provided by Sharia-compliant banking operations to enhance

access for families, entrepreneurs, and micro, small, and medium-sized enterprises to the formal financial system.

2. Create Islamic funds to target micro, small, and medium-sized enterprises.

3. Create awareness of the concept of savings and thrift among individuals through Sharia-compliant savings plans, enabling individuals to invest in available fields and activities.

4. Organize workshops and forums aimed at raising awareness among individuals and institutions about the financing options offered by Sharia-compliant institutions and how to access them.

5. Coordinate regulatory authorities with the Ministry of Information and media organizations of all kinds to conduct awareness campaigns about Islamic financial services and products.

6. Coordinate regulatory authorities with the Ministry of Education and Higher Education to introduce courses related to Islamic financial services.

7. Develop the infrastructure and legislation for Islamic financial institutions in all forms to enable them to play their role effectively in promoting financial inclusion and stability.

8. Utilize innovative financial products and employ modern financial technologies to facilitate services and reduce associated costs.

9. Encourage the Islamic financial sector to invest in and finance projects in remote areas through facilitated financing programs.

10. Realize multiple economic benefits by focusing on investing in the real economy and providing the necessary financing to enhance investment opportunities in small and medium-sized projects.

11. Enhance the role of loan guarantee companies in providing guarantees for Islamic financing.

12. Adopt Islamic financial products and services as reliable financial solutions in-state transactions and corporate dealings, such as lease products, Tawarruq, manufacturing contracts, and Sukuk, which serve as legitimate alternatives to bonds.

13. Develop secondary markets for trading certain Islamic financial products, such as Sukuk.
14. Create a fair competitive environment between banks and Islamic and traditional institutions regarding equal access to opportunities, support, and assistance.
15. Enhance the role of Islamic financial instruments and wealth distribution tools in financial inclusion (e.g., Zakat, Sadaqat, Waqf, and Qard al-Hasan) by restricting the receipt and distribution of funds from these instruments within the formal financial system, increasing the financial included population, especially those with limited and lower incomes.
16. Provide necessary training for graduates from economics and business colleges to understand the nature of Islamic financial institutions.

LIMITATIONS OF THE STUDY

Like many other social science research projects, this study has inherent limitations that may impact its development. These constraints involve issues such as limited resources and references, along with challenges in acquiring data due to uncooperative participants during the data collection process. The identified limitations consist of:

1. The lack of relevant resources on the subject is because Islamic banks are relatively new in Mauritania. This has made it challenging to access accurate information about the financial system in the country.
2. The lack of cooperation from the operators of Islamic financial institutions with researchers in responding to their inquiries further increases the scarcity of information about these institutions.
3. The low awareness of the concept of financial inclusion and Islamic finance has rendered the collected information insufficient to conduct comprehensive research in this field.

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APPENDIX 1

SURVEY SAMPLES

Accelerate financial inclusion through Islamic finance institutions in Mauritania. (2024) (English)

I am Mohamedou Babah, a master's student at the Islamic Economics and Finance Department at Ankara Social Science University (ASBU). This survey aims to understand Islamic finance's role in accelerating financial inclusion in Mauritania. We kindly request your esteemed participation in answering the questions in the questionnaire, noting that your contribution to these responses will assist the researcher in achieving the desired scientific results. Please be aware that the information you provide will be used for research purposes only, so we appreciate your accurate and neutral responses.

Financial Inclusion: Financial inclusion is a concept that refers to providing financial services to everyone, including individuals, families, and non-bank businesses, regardless of their geographical location or social and economic status.

Islamic Finance: Islamic finance is a financial system based on the principles and rules of Islamic law (Sharia), aiming to provide financial solutions that align with Islamic values and principles. The Islamic financial system prohibits interest (usury), and collaboration and profit-and-loss sharing are integral parts of it.

The survey consists of four different parts:

1) Demographic profiles
2) Mauritania's Financial Inclusion Gap : Perceptions and Obstacles
3) Public Perceptions of Islamic Finance and its Role in Financial Inclusion
4) Awareness of the concept of financial inclusion and Islamic finance

Participation in the survey is completely optional, and the responses will not be shared with any third parties. Your responses will be used in the master's thesis only and will be crucial to understanding the role that Islamic financial institutions can play in promoting and accelerating the financial inclusion process.

Survey question

Part 1: Demographic profiles

1) Age
   A. 18-25
   B. 26-35
   C. 36-45
   D. 46-55
   E. Above 56 years
2) Professional Status
   A. Employee
   B. Not Employee
   C. Student
3) Gender
   A. Male
   B. Female

Part 2 : Mauritania's Financial Inclusion Gap : Perceptions and Obstacles

1) How do you evaluate the current level of the inclusiveness of the finances in Mauritania?
   A. Very low
   B. Low
   C. Very high

D. High
E. Average

2) Have you used any financial services or products?
   A. Banking services over the phone
   B. Traditional bank services (savings account, current account)
   C. Islamic finance products
   D. Microfinance services
   E. I did not use any services.
3) Are you satisfied with the services and financial products available to you currently through banks?
   A. Completely dissatisfied
   B. Dissatisfied to some extent
   C. Satisfied to some extent
   D. Very satisfied
   E. Natural
4) What are the barriers you believe hinder people in Mauritania from accessing financial services?
   A. Religious reasons
   B. Lack of awareness of available services
   C. High fees and costs
   D. Many documents requirements
   E. Limited access to banks or financial institutions

Part 3: Public Perceptions of Islamic Finance and its Role in Financial Inclusion

1) Are you aware of any products or financial services, Islamic finance is currently available in Mauritania?
   A. Yes
   B. No

2) Do you consider that the funding of Islamic can be more attractive than traditional financing?
   A. Yes
   B. No
3) Do you think that the funding of Islam can contribute to accelerating financial inclusion in Mauritania?
   A. Strongly Agree
   B. Agree
   C. Strongly Disagree
   D. Disagree
   E. Natural
4) What aspects do you believe Islamic finance can help enhance financial inclusion in Mauritania?
   A. Funds without interest
   B. Support for small and medium enterprises.
   C. Social welfare programs (such as Zakat)
   D. Participation system in profit and loss
   E. The principles of moral investment
5) Do you have any challenges or concerns related to the implementation of the funding of Islam in Mauritania?
   A. Yes
   B. No

Part 4: Awareness of the concept of financial inclusion and Islamic finance

1) What is the level of awareness of the concept of financial inclusion and funding, of islam in Mauritania?
   A. Very low
   B. Low
   C. Very high

D. High
E. Avrage

2) Do you think that increased awareness and education about the funding of Islam can enhance financial inclusion in Mauritania?
   A. Strongly Agree
   B. Agree
   C. Strongly Disagree
   D. Disagree
   E. Neutral

3) What are the best ways, in your opinion, to raise awareness about Islamic finance?
   A. Workshops and seminars
   B. Online articles and videos
   C. TV and radio programs
   D. Social media platforms
   E. Printed brochures and publications