CHAPTER 3

Role of Islamic Banking in Financial Inclusion: Prospects and Performance

Salman Ahmed Shaikh, Mohd Adib Ismail, Muhammad Hakimi Mohd. Shafiai, Abdul Ghafar Ismail, and Shahida Shahimi

Abstract According to Global Financial Development Report 2014, the proportion of adult population holding bank accounts in 25 out of 48 Organization of Islamic Cooperation (OIC) member countries surveyed stands below 20 %. Part of the reason is Muslims' voluntary exclusion of interest-based financial services. On average, 28 % adults in the OIC countries hold a bank account at a formal financial institution. On the other hand, only 7.7 % of the poorest 40 % people in the OIC countries borrow from financial institutions. Furthermore, in the OIC countries, like Guinea-Bissau, Gabon, Chad, Sudan, Syria, Mozambique, Gambia, and Iraq, microfinance outreach are not even catering to the 1 % of the poor people in these countries. In 26 out of 36 OIC countries where sufficient data are available, we find that not even 10 % of the poor people are under the microfinance radar. Thus, this presents a challenge as

S.A. Shaikh (✉) · M.A. Ismail · M.H. Mohd. Shafiai · S. Shahimi
Universiti Kebangsaan Malaysia, Kuala Lumpur, Malaysia

A.G. Ismail,
IRTI, Jeddah, Saudi Arabia

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well as an opportunity for Islamic banks to increase their outreach toward fostering inclusive finance in the OIC countries.

Keywords Islamic banking · Islamic finance · Financial inclusion · Microfinance

1 Introduction

The empirical literature largely supports a positive association between financial development and economic growth. In general, countries with more developed financial systems enjoy greater economic growth rates. North (1990) and Neal (1990) concluded from their study that regions that developed relatively more sophisticated and well-functioning financial systems were the ones that were the subsequent leaders in the economic development of their times. Odedokun (1998) also concludes that the growth of financial aggregates in real terms has positive impacts on economic growth of developing countries, irrespective of the level of economic development attained. Levine (2002) using cross-country data argues that financial development is robustly linked to economic growth. Even for the Organization of Islamic Cooperation (OIC) member countries, Hassan, Sanchez and Yu (2011) find a positive relationship between financial development and economic growth.

However, the issue in developing countries is that financial services are not accessible to the masses of poor people. Voluntary exclusion due to faith reasons creates yet another hindrance in the way of financial inclusion in the OIC countries. According to World Values Survey sixth wave (2010–2014), 75.4 % respondents in 21 OIC member countries regard religion as "very important" as compared to 36 % holding the same view in the non-OIC countries. According to Islamic scholars, modern day interest is Riba, which is prohibited in Islam (Verse 275: Al-Baqarah). Therefore, voluntary exclusion from interest-based banking products and services in Muslim societies could be significant. A survey of 65,000 adults from 64 economies reveals that Muslims are significantly less likely than non-Muslims to own a formal account or save at a formal interest-based financial institution after controlling for other individual and country-level characteristics (Demirgüç-Kunt et al.

2013). For instance, in countries, like Afghanistan, Morocco, Iraq, Niger, and Djibouti, the percentage of adult population with no bank accounts for religious reasons stands at 33.6 %, 26.8 %, 25.6 %, 23.6 %, and 22.8 %, respectively (Naceur et al. 2015). Thus, Muslims, in particular, need financial solutions that are Shari'ah compliant. To cater to this need, Islamic banking institutions were established in various parts of the world.

Globally, Islamic banking first appeared as social finance in the 1960s. Mit Ghamr Islamic Savings Bank was started in Egypt by El-Naggar in 1963. Around the same time, the Pilgrims

Fund Corporation or Tabung Haji started operations in Malaysia in 1963 to enable Muslims to save for meeting expenses of the Hajj pilgrimage (Chachi 2005).

However, modern incorporated Islamic commercial banking began in 1979 with the establishment of Dubai Islamic bank. Since then, the Islamic financial institutions have been established in many OIC regions, including the Middle East, South Asia, East Asia, and Northern Africa.

Global Islamic banking assets exceeded $925 billion in 2015. Among individual countries, market share of Islamic banking in national banking remains at 51.2 % in Saudi Arabia, 45.2 % in Kuwait, 29.3 % in Bahrain, 25.8 % in Qatar, 21.6 % in the United Arab Emirates (UAE), 21.3 % in Malaysia, and 10.4 % in Pakistan. In the aftermath of the financial crisis of 2007–2009, Islamic banking has maintained higher Compound Annual Growth Rate (CAGR) than conventional banks in all countries except the UAE. In countries like Indonesia, Pakistan, Turkey, Qatar, and Saudi Arabia, the CAGR have exceeded 20 %. Table 3.1 gives a growth comparison in Islamic and conventional banking in selected countries.

In this chapter, we explore the strategic positioning of Islamic banking on ideological and economic grounds. In Sect. 2, we discuss the role of Islamic banking as seen by the idealists and the realists. Despite the lack of consensus on the idealistic and realistic schools of thought on the strategic direction and positioning of Islamic banking, we argue that it has an extremely important role to play in dealing with financial exclusion in Muslim majority countries. In Sect. 3, we look at the state of financial inclusion in the OIC countries. In Sect. 4, we estimate the microfinance outreach gap in the OIC countries. Finally, in Sect. 5, we discuss how

Table 3.1 Growth comparison in Islamic and conventional banking

Compound annual growth rate (2010–2014) (%)		
Country	*Islamic banking*	*Conventional*
Indonesia	29	11
Pakistan	27	13
Turkey	25	16
Qatar	22	7
Saudi Arabia	20	7
Malaysia	17	9
The UAE	13	19
Kuwait	10	4
Bahrain	4	–1

Source: E&Y Islamic Banking Competitiveness Report 2015–2016

Islamic banks can contribute in enhancing the coverage of inclusive finance in the OIC countries.

2 Islamic Banks as Intermediaries: Idealism Versus Realism

Islamic banks use Shari'ah compliant contract structures to design and offer financial products. However, they work as commercial financial intermediaries. Pioneer scholars envisioned Islamic banks to be not only Shari'ah compliant, but also distinctively contributing toward the achievement of equitable income distribution, enhancing social mobility, achieving broad based financial inclusion, and fostering need fulfillment. However, the demands of the industry hamper in achieving these ideals on priority basis. This has created a wedge between the realists and the idealists. The realists are the executioners of Islamic banking on the ground and who have to compete alongside conventional banking within same legal, governance, and market conditions. Hence, they are obliged to pursue an evolutionary assimilation of Islamic banking to penetrate from ground zero into the mainstream and the dominant conventional banking system. The products though Shari'ah compliant are structured to compete with mainstream conventional banking industry. The idealists want a more revolutionary assimilation of Islamic

banking to create a distinctive mark on financial landscape right from the beginning. In what follows, we give a brief sketch of how the idealists and the realists have assessed the performance of Islamic banking practice so far.

Akram and Furqani (2013) explicate three specific ends (Maqasid) in Islamic finance, namely wealth circulation, fair and transparent financial practices, and justice at the micro- and macro-level. They argue that fulfilling minimal Shari'ah legal compliance in product structuring is insufficient to make progress toward these specific ends.

In defense, Khir (2013) explains that mainstream Muslim scholars supporting the Islamic finance movement contend that Islam recognizes the legitimacy of the time value of money in Islamic financial transactions such as deferred sale and bilateral rebate. Khan (2014) thinks that critics of Islamic banking do not appreciate how important debt financing is for value creation in an economy and especially for inclusive growth and economic development through making financial services accessible for asset acquisition. Chapra (2007) argues that even if debt financing is predominantly used in Islamic banking practice, asset backed financing does not allow the debt to exceed the growth of the real economy. He argues that the introduction of such a discipline would ensure greater stability as well as efficiency and equity in the financial system.

On the other hand, Islamic economists holding on to the more egalitarian vision like Siddiqi (2014) argue that the role of debts needs to be drastically reduced and replaced by participatory modes of finance. However, revealing the ground reality, Kayed (2012) observes that the experiences of Islamic banking in various Muslim countries have shown that the profit and loss sharing (PLS) model has been marginalized. Hassan and Bashir (2003) explain that Islamic banks' loan portfolio is heavily biased toward short-term trade financing. Islamic economists like Siddiqui (2007) who expect a lot from Islamic banks than just acting as financial brokers like conventional banks think that unless Islamic banking gradually moves away from debt like financing, it cannot claim to be a substantive alternative of the conventional banking system.

On the practical difficulties of moving toward PLS modes, Khan (1989) notes that informational asymmetry and higher monitoring costs hinder the widespread use of equity contracts. Khan and Bhatti (2006) explain that

banks do not find it feasible to enter into the PLS relationship with business people whose majority maintains double sets of accounts for the sake of avoiding exorbitant tax payments. The absence of a just and speedy judicial system also discourages banks from adopting the PLS system. Business people also show high reluctance to enter into the PLS relationship in order to preserve privacy of their business operations from outside stakeholders.

Other critics of Islamic banking dismiss the notion that the current models and institutional structure can result in any real and meaningful transformation of the way banks function. Choudhury (2012) unequivocally remarks that Islamic banking is a mainstream enterprise, good for the rich shareholders in the narrow preconceived notion of avoidance of financial interest, while not understanding the epistemological meaning underlying this principle. Haniffa and Hudaib (2010) argue that Maqasid al-Shari'ah (purposes of the law) has been unduly used to justify the innovation of financial products to compete and converge with conventional banking. Another staunch critic of Islamic finance practice, El-Gamal (2005) observes that Islamic finance as it exists today is a prohibition-driven industry, which attempts to provide Muslims with permissible analogs of conventional financial services and products that are generally deemed impermissible in Islamic jurisprudence. El Gamal (2007) in another study contends that growth in Islamic finance over the past three decades has been led by rent-seeking Shari'ah arbitrageurs, whose efforts continue to be focused on synthesizing contemporary financial products and services for classical nominate contracts, without regard to the corporate structure of financial institutions.

Thus, we find that there is a drift in the idealist and realist camps. But, given the low levels of financial inclusion and outreach of financial services to the lower segments, Islamic banks have an important role to play. If they are able to contribute in these dimensions, it can hopefully lead to reduce apprehensions and drift in the idealist–realist camps. In the next two sections, we highlight the important gaps that exist for Islamic banking to fill in the area of financial inclusion and outreach in Muslim majority countries.

3 State of Financial Inclusion in the OIC Countries

In this section, we explore the state of financial inclusion in the OIC countries. We look at the proportion of adult population holding bank accounts and borrowing from banks. We also look at how easy it is to come up with emergency funds in the OIC countries for the poorer and richer

Table 3.2 Bank account penetration in the OIC countries

Account at a formal financial institution (% age 15+)			
Country Name	*2014*	*Country Name*	*2014*
Iran	92	Tunisia	27
The United Arab Emirates	84	Jordan	25
Bahrain	82	Mauritania	23
Malaysia	81	Mali	20
Kuwait	73	Kyrgyz Republic	18
Saudi Arabia	69	Togo	18
Turkey	57	Benin	17
Kazakhstan	54	Sierra Leone	16
Bosnia	53	Senegal	15
Algeria	50	Sudan	15
Kosovo	48	Burkina Faso	14
Lebanon	47	Egypt	14
Nigeria	44	Pakistan	13
Uganda	44	Cameroon	12
Uzbekistan	41	Chad	12
Albania	38	Iraq	11
Indonesia	36	Tajikistan	11
Côte d'Ivoire	34	Afghanistan	10
Gabon	33	Guinea	7
Bangladesh	31	Niger	7
Azerbaijan	29	Yemen	6
		Turkmenistan	2

Source: Global Financial Development Report 2014

segments of the society. We use the data from the World Bank survey on financial inclusion as well as Global Financial Development Report 2014.

Table 3.2 shows the percentage working age population holding bank account at a formal financial institution as a proportion of total population. On average, 28 % adults in the OIC countries hold a bank account at a formal financial institution. This is lower than the 30.26 % average for the middle-income countries and 93.05 % average for the high-income countries. The OIC countries with higher per capita incomes have half of their adults holding a bank account. These include countries like Kuwait, Iran, Oman, Malaysia, Qatar, Bahrain, the UAE, and Turkey. The OIC countries with less than 10 % adults holding bank accounts mostly include members from Africa. Countries like Egypt, Chad, Sudan, Senegal, Guinea, and Niger have lower than 10 % adults with bank accounts at a formal financial institution.

Table 3.3 Bank borrowers as proportion of adult population

Bank borrowers (per 1,000 adults)					
Country Name	*2013*	*Percent*	*Country Name*	*2013*	*Percent*
Turkey	865.60	86.56	Bangladesh	84.12	8.41
Brunei Darussalam	627.31	62.73	Mozambique	60.65	6.07
Suriname	466.73	46.67	Djibouti	51.22	5.12
Malaysia	403.35	40.33	Uzbekistan	47.73	4.77
Indonesia	377.16	37.72	Syrian Arab Republic	44.05	4.40
Lebanon	298.91	29.89	Algeria	43.73	4.37
Bosnia	282.37	28.24	Kyrgyz Republic	42.94	4.29
Qatar	249.23	24.92	Mauritania	36.31	3.63
Azerbaijan	239.24	23.92	Tajikistan	35.22	3.52
Tunisia	203.98	20.40	Nigeria	26.96	2.70
Saudi Arabia	184.36	18.44	Pakistan	24.55	2.45
Kuwait	167.71	16.77	Uganda	18.50	1.85
Libya	141.22	14.12	Sierra Leone	15.71	1.57
Maldives	138.23	13.82	Guinea	10.33	1.03
Egypt	113.23	11.32	Afghanistan	4.12	0.41
Gabon	110.91	11.09	Chad	3.71	0.37

Source: World Development Indicators, World Bank

Table 3.3 shows the number of bank borrowers per 1,000 adults. We see that only in Turkey and Brunei more than half of the adults are bank borrowers.

In countries like Nigeria, Pakistan, Uganda, Sierra Leone, Guinea, Afghanistan, and Chad, less than 30 persons per 1,000 adults obtain loans from banks. In almost half of the countries under observation (16 out of 33), less than 10 % adults are bank borrowers. It could be said that low bank borrowing could be voluntary rather than involuntary. However, we observe that the income poverty rate is less than 30 % only in 3 countries out of 16 countries where bank borrowing adult population is less than 10 % of total adult population. Thus, much of the OIC member states with less bank borrowing population are largely poor and hence, they may face binding liquidity constraints due to involuntary financial exclusion.

Hence, we see that the OIC countries have low levels of financial inclusion. Islamic banking has a challenge as well as an opportunity to offer inclusive financial services to the voluntary and involuntary excluded population. So far, Islamic banking products offer Shari'ah compliance,

but their credit criteria in debt-based products include and exclude similar kinds of clients. Thus, they remain an alternative means of doing banking for those people who voluntarily excluded themselves from conventional finance even though they are "bankable" clients for both conventional and Islamic banks.

Developed and emerging Muslim majority countries in East Asia like Malaysia along with Turkey in Europe and Kuwait, Bahrain, Qatar, and the UAE in the Middle East have been relatively more successful in improving financial inclusion. The hard miles in the journey come in developing countries where the individual savings are not enough and big corporate businesses do not exist due to a host of lag in institutional and infrastructural development. In the next section, we explore whether the microfinance fills the gap left by the absence of commercial banks in the OIC countries, especially in the poorer ones.

4 Microfinance Outreach Gap in the OIC Countries

As discussed earlier, Muslim countries represent a quarter of the global population, but they are generally poorer than non-Muslims as their share in the global poverty pool is twice as much as their share in global population. Table 3.4 shows the incidence of poverty as measured by the poverty headcount ratio. The poverty measure is computed based on each country's national poverty line. We also present the total number of microfinance borrowers in each of the respective OIC countries. Then, we also provide the outreach gap measured as the difference between the estimated number of total poor people in the country and the total number of microfinance borrowers. Last column also shows the outreach gap as a percent of the total poor population in the country. We take data on the microfinance footprint in the OIC countries from MIXMARKET.

In the OIC countries, like Guinea-Bissau, Gabon, Chad, Sudan, Syria, Mozambique, Gambia and Iraq, microfinance outreach are not even catering to 1 % of the poor people in these countries. In 26 out of 36 countries where sufficient data are available, we find that not even 10 % of the poor people are under the microfinance radar. In five OIC countries, the poverty headcount ratio at national poverty line exceeds half of the population. In these OIC countries where the poverty headcount ratio is more than 50 %, not even 10 % of the poor people is reached by microfinance.

Table 3.4 Microfinance outreach gap in the OIC countries

Country Name	*PHCR-National (%)*	*Total Borrowers*	*Total Population*	*Total Poor*	*Outreach Gap (no.)*	*Outreach Gap (%)*
Guinea-Bissau	69.3	1,662	1,663,558	1,152,846	1,151,184	99.9
Togo	58.7	297,093	6,642,928	3,899,399	3,602,306	92.4
Guinea	55.2	117,037	11,451,273	6,321,103	6,204,066	98.1
Mozambique	54.7	68,299	25,203,395	13,786,257	13,717,958	99.5
Sierra Leone	52.9	110,713	5,978,727	3,162,747	3,052,034	96.5
Niger	48.9	218,109	17,157,042	8,389,794	8,171,685	97.4
Gambia, The	48.4	4,389	1,791,225	866,953	862,564	99.5
Burkina Faso	46.7	201,537	16,460,141	7,686,886	7,485,349	97.4
Senegal	46.7	282,745	13,726,021	6,410,052	6,127,307	95.6
Chad	46.7	21,430	12,448,175	5,813,298	5,791,868	99.6
Sudan	46.5	67,435	37,195,349	17,295,837	17,228,402	99.6
Nigeria	46.0	2,600,000	168,833,776	77,663,537	75,063,537	96.7
Mali	43.6	271,619	14,853,572	6,476,157	6,204,538	95.8
Cameroon	39.9	292,146	21,699,631	8,658,153	8,366,007	96.6
Benin	36.2	305,470	10,050,702	3,638,354	3,332,884	91.6
Afghanistan	35.8	148,033	29,824,536	10,677,184	10,529,151	98.6
Syrian Arab Republic	35.2	32,518	22,399,254	7,884,537	7,852,019	99.6
Yemen, Rep.	34.8	112,494	23,852,409	8,300,638	8,188,144	98.6
Gabon	32.7	907	1,632,572	533,851	532,944	99.8
Tajikistan	32.0	339,039	8,008,990	2,562,877	2,223,838	86.8
Bangladesh	31.5	18,600,000	154,695,368	48,729,041	30,129,041	61.8

Table 3.4 (continued)

Country Name	*PHCR-National (%)*	*Total Borrowers*	*Total Population*	*Total Poor*	*Outreach Gap (no.)*	*Outreach Gap (%)*
Kyrgyz Republic	30.6	432,980	5,607,200	1,715,803	1,282,823	74.8
Lebanon	28.6	79,017	4,424,888	1,265,518	1,186,501	93.8
Egypt, Arab Rep.	25.2	905,888	80,721,874	20,341,912	19,436,024	95.5
Pakistan	22.3	3,600,000	179,160,111	39,952,705	36,352,705	91.0
Uganda	19.5	731,393	36,345,860	7,087,443	6,356,050	89.7
Iraq	18.9	56,008	32,578,209	6,157,282	6,101,274	99.1
Bosnia and Herzegovina	17.9	257,037	3,833,916	686,271	429,234	62.5
Uzbekistan	16.0	176,029	29,774,500	4,763,920	4,587,891	96.3
Tunisia	15.5	263,268	10,777,500	1,670,513	1,407,245	84.2
Jordan	14.4	333,723	6,318,000	909,792	576,069	63.3
Albania	14.3	63,280	2,900,489	414,770	351,490	84.7
Indonesia	11.3	1,200,000	246,864,191	27,895,654	26,695,654	95.7
Morocco	8.9	883,852	32,521,143	2,894,382	2,010,530	69.5
Kazakhstan	2.9	241,976	16,791,425	486,951	244,975	50.3
Turkey	2.3	67,414	73,997,128	1,701,934	1,634,520	96.0

Most poor people are in Nigeria, followed by Bangladesh, Pakistan, Indonesia, and Egypt. In all these eight OIC member states, the poor population exceeds 20 million in numbers. Bangladesh has the highest outreach in microfinance. Along with Bangladesh, Pakistan, Nigeria, and Indonesia are the other OIC countries where microfinance client base exceeds 1 million. Nevertheless, apart from Bangladesh, the outreach gap is more than 90 % in Pakistan, Nigeria, and Indonesia.

Islamic microfinance is an alternative for people who wish to obtain relief in their income and liquidity constraints to smooth consumption of their own and their family members. Obaidullah (2008) explains that there are two broad categories of Islamic microfinance models that are globally used, i.e. charity based not-for-profit models and market-based commercial models. The former model uses Qard-e-Hasan, Waqf, and Zakat funds for providing non-compensatory loans or non-repayable grants. Market-based commercial models provide microcredit using Murabaha and micro-leasing using Ijarah.

The theoretical edge of Islamic microfinance has been studied by several Muslim economists. According to Ahmed (2002), Islamic Microfinance Institutions (IMFIs) appear to have performed better than Grameen Bank. Ahmed (2002) expects IMFIs to benefit from the social capital derived from Islamic values and principles. Ahmed (2002) reasons that IMFIs can reduce high monitoring costs substantially since Islamic modes of financing involve a real transaction. The moral hazard problem arising from the use of funds for purposes other than those intended substantially reduces in Islamic contracts. Komi and Croson (2013) find significantly higher compliance rates for the Islamic-compliant contracts (profit-sharing and joint venture) than for the traditional contract (interest based). Ashraf, Hassan and Hippler III, W. (2014) in an empirical study provide evidence that low religious orientation corresponds to higher levels of risk and default. Citing another ethical benefit of Islamic microfinance due to its risk sharing and asset backed nature, Samad (2014) argues that if Islamic microfinance is offered in India, the mass suicides committed especially by the Indian farmers can be contained to a great extent and can be virtually stopped.

However, in terms of realizing the theoretical and structural potential, we do not find an impressive progress. Islamic microfinance is still just 1 % of the total global Islamic banking assets. This is despite the impressive growth and stable profits of the Islamic commercial banks all over the world. Awareness about Islamic banking is cited as one important hindrance in Islamic banking practice; however, with wide geographical

penetration and targeted products for the lower segments of society, the awareness issue can be tackled more directly as well as provide an opportunity for the average Muslims to benefit from Islamic banking and finance on a wide scale.

5 How Could Islamic Banking Contribute in Financial Inclusion

In this section, we discuss how Islamic banking can contribute in enhancing the coverage of inclusive finance in the OIC countries by leveraging on technology, using equity-based modes of finance and focusing attention toward microfinance.

5.1 Use of Information and Communications Technology (ICT)

In the Global Financial Development Report 2014, one-fifth of the unbanked respondents cited distance as a major barrier. Using the Information and Computer Technology (ICT), Islamic banks can help in increasing financial inclusion in locations where physical presence is costly. Nowadays, the urban banking population also requires convenient banking solutions. According to World Islamic Banking Competitiveness Report (Nazim and Kasbati 2016), mobile banking usage in the UAE stands at 34 %, followed by 27 % in Kuwait, 19 % in Qatar, and 15 % in Saudi Arabia. In GCC, 26 % Islamic banking customers use mobile banking as compared to 38 % customers in conventional banking. Thus, the use of ICT can also help in economizing on physical infrastructure to reach lower segments of the society in rural areas and conveniently engaging with and retaining customers in the urban areas.

5.2 Increased use of Equity-based Modes of Financing

The equity-based modes of financing are ideally suited where the clients lack collateral and require entrepreneurial capital as well as income support. Islamic banks have largely avoided using equity-based modes of financing in commercial asset side operations due to high monitoring and agency costs. Islamic banks can use their surplus liquidity to introduce equity-based modes of financing for the lower income segments of the society.

Using equity-based modes of financing for financing microenterprises that employ poor workers can be useful if individual level financing has high agency and transaction costs. Organizing labor-intensive businesses as microenterprise can yield technical and financial economies of scale. Labor-intensive businesses such as furniture making, house maintenance, catering, home textile, light engineering and dairy, fish, poultry, and fish farming can be organized as microenterprise and the Islamic banks can use equity-based modes of financing to finance these microenterprises.

5.3 Increased Focus Toward Microfinance

According to Global Financial Development Report 2014, about 80 % of the poor living under 2 dollars a day have no bank accounts. Since the majority of rural poor are voluntarily as well as involuntarily financially excluded, they require finance for achieving higher social mobility and for ensuring survival. Most poor people do not own many valuable fixed assets. Hence, they are unable to furnish collateral and hence remain underserved by the commercial banks. Even the assets they own like land, livestock, or furniture are not admissible as collateral by commercial banks. Islamic microfinance institutions providing asset backed financing have an inbuilt cushion in the sense that all their financing activities are backed by a real asset.

Thus, Islamic microfinance is vital for enhancing financial inclusion of lower income segments. Islamic microfinance can be used to extend funding for the purchase of small business assets, appliances, tools, food processing machines, and tradable inventory. Islamic micro insurance products can also help in income smoothing of poor farmers who otherwise have to sell their small productive capital that further puts them at poverty risk.

6 Conclusion

In this chapter, we explored the state of financial inclusion in the OIC countries. We noted that the proportion of adult population holding bank accounts in 25 out of 48 OIC countries stands below 20 %. We also estimated the microfinance outreach gap in the OIC countries to focus attention toward the extent of involuntary financial exclusion in the OIC countries. According to our estimates, we find that not even 10 % of the

poor people are under the microfinance radar in 26 out of 36 OIC countries where sufficient data are available. To reduce financial exclusion, we recommend that Islamic financial institutions leverage on technology, use equity-based modes of finance, and focus attention toward microfinance.

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Salman Ahmed Shaikh is a PhD Scholar in Economics.

Mohd Adib Ismail is Senior Lecturer at Universiti Kebangsaan Malaysia.

Muhammad Hakimi Mohd. Shafiai is Senior Lecturer at Universiti Kebangsaan Malaysia.

Abdul Ghafar Ismail is Head of Research & Training at Islamic of Research & Training Institute, Jeddah. He is also a Professor of Economics at Universiti Kebangsaan Malaysia.

Shahida Shahimi is Associate Professor and Head of Postgraduate Programs at Universiti Kebangsaan Malaysia.