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Islamic Finance and Financial Inclusion: Theoretical benchmarks

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Astract:
Through this study, we seek to establish a theoretical framework that links the Islamic financial system and the principle of financial inclusion. As such, it will help to understand how Islamic financing tools could contribute to improving financial inclusion.
Keywords: *Islamic finance; financial inclusion; Senegal*

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I. Introduction

Since the Islamic financial system also has this concept of sharing risks and profits between the lender and the borrower, it is useful to understand and compare its approaches. Therefore, this study will help to understand how Islamic financing tools could contribute to improving inclusion.
The general objective of the research will be to review the history of Islamic finance

1. Conceptual Study/Principles of Islamic finance

Islamic finance postulates a supreme and absolute requirement, namely the necessary conformity of banking practice with the economic and financial prescriptions of Islamic law, sharia in this case. In this regard, it is based on five founding principles which are:
• The prohibition of interest
• Backing operations to real assets
• Investment sectors deemed illicit
• Equitable sharing of the result (loss or profit) between the Islamic bank and its client
• Interest circumvention mechanisms
- The prohibition of interest

In accordance with Muslim law, Islamic finance bans the lending of money and therefore its result, namely interest qualified as usury (riba in Arabic). This prescription finds its source in the provisions of verse 275, sura 2 of the Koran where it is explicitly said that: "God has made commerce lawful and interest unlawful." In order to explain this verse, a hadith from the Prophet Muhammad (Peace and Salvation be upon Him) sets out the rules of trade deemed legal. This hadith has a general scope because it targets six products known as ribawi: these are gold, silver, wheat, wheat, dates and salt. Any exchange of identical product (gold for gold, wheat for wheat, etc.) with an advantage for one of the parties constitutes a usurious transaction, except with regard to the advantages resulting from the exchange of products of a different nature (gold for wheat For example).

Likewise, in matters of currency exchange (money for money), any surplus derived from a transaction not based on real assets previously owned by the seller is deemed illicit (haram in Arabic). Loan contracts, whether bank loans to businesses or households, therefore do not respect this Koranic requirement of the prohibition of interest.
- Backing operations to real assets
In the same spirit, Islam prohibits both civil and commercial transactions based on financial speculation (gharar) or chance (mayssir). The result is that any gain made simply because of the variation in the price of a good, without the slightest connection with a concomitant variation of the same magnitude in the quantities of said

good, is considered illicit: it is speculation. Likewise, any profit generated during games of chance or various bets exploiting the phenomenon of uncertainty is strictly prohibited by Koranic law.

- Investment sectors deemed illicit

There are requirements as to the nature of the activity in which an investment remains Shariah compliant. This is how games of chance, the production and distribution industry of alcoholic beverages, establishments and places of consumption of beverages of the same nature, pig farming, the arms sector (production, distribution), the film industry arousing or suggesting debauchery or human degradation (pornography) constitute investment sectors prohibited by Islam.

The supervision of investments in terms of compliance with Islamic regulations takes place in two ways:

The first form is individual in the sense that all Muslims are supposed not to invest their funds in industries that are incompatible with their ethics as a believer;

The second is institutional or organizational; in fact, the banks

and other Islamic investment funds are composed, in addition to a board of directors, also and above all of a supervisory or ethics committee (the Sharia Board) whose members are independent. Thus, the participations held by these Islamic finance organizations in companies possibly operating in areas deemed illicit are subject to disapproval from these committees.

- Equitable sharing of the project result (loss or profit) between the Islamic bank and its client

Under this principle, the Islamic bank assumes a great social responsibility by linking its fate to the result (loss or profit) of the project it finances. In such a financing scheme where interest is banned, any gains generated by the investment are equitably shared between the two parties, in accordance with the contractual provisions of the financing agreement. In the opposite situation, and depending on the type of financial product chosen by the customer, it is the bank which

Musharaka, as far as it is concerned, is a partnership scheme in which both parties provide the funds, but only one of them will be responsible for managing the project. In practice, Islamic banks have developed in this regard a specific product called “mousharaka mutanaquissa” which consists of participating in the financing of the acquisition in particular of real estate (generally residential). Most of the funds (90%) are provided by the bank and the balance (10%) by the individual beneficiary. The reimbursement follows an amortization table which includes, in addition to the principal, the profits made by the bank from this operation.

As for murabaha, it is a sales contract established between a seller (a bank or an Islamic fund) and a buyer (client), by which the first acquires the goods required by the second and resells them to him at a increased price. The benefits (profit margin) and the repayment period (generally installments) are specified in an initial contract.

Ijara, for its part, is a method of medium-term financing by which the bank or Islamic fund purchases machines and equipment, then transfers the usufruct to the beneficiary for a period during which it retains the title of ownership. of these goods. By its nature, this type of contract is comparable to a leasing transaction at the end of which the title of ownership returns to the beneficiary.

Sukuk, for its part, is the Islamic equivalent of a bond where the interest becomes a profit planned in advance with almost zero risk. This product is widely used in real estate financing.

To this variety of contracts is added the istisna which is similar to a medium-term hedging operation. It generally concerns a manufacturing (or construction) contract. Under this type of contract, the lessor (seller) agrees to supply to the buyer (customer), within a certain period and at an agreed price, specified goods after their manufacture (or construction) in accordance with a specification predefined.

2. Financial inclusion

Several definitions have been given to financial inclusion by technical and financial partners, regional institutions and countries signatories to the Maya Declaration. In particular, the Alliance for Financial Inclusion (AFI) proposes that each member country adopt a definition of financial inclusion according to its situation, its constraints, its objectives and targets. It recommends that this definition be measurable and based on the four (4) aspects cited in order of complexity: access, quality, use and well-being.

For the World Bank, financial inclusion defines the possibility for individuals and businesses to access at lower cost a range of useful financial products and services adapted to their needs (transactions, payments, savings, credit and insurance) , offered by reliable and responsible service providers.

For UNCDF, financial inclusion means that individuals and businesses have access to and use a range of appropriate and responsibly provided financial services in a properly regulated environment.

For the African Development Bank (AfDB), financial inclusion encompasses all initiatives aimed at making formal financial services available, accessible and affordable for the entire population. This requires

particular attention to segments of the population historically excluded or underserved by the formal financial sector.
For the BCEAO, financial inclusion is defined as follows: “permanent access of populations to a diverse range of adapted financial products and services, at affordable costs and used in an effective, efficient and effective manner”.
For Ivory Cost, financial inclusion consists of promoting access of populations, including those vulnerable or excluded, to adapted and affordable formal financial services for their use.
In Senegal, for the purposes of the study on the reference situation of financial inclusion (ESRIF) carried out in 2017 by the Directorate of Regulation and Supervision of Decentralized Financial Systems (DRS-SFD) with the assistance of the AFI and the National Agency for Statistics and Demography (ANSD), it was noted that “financial inclusion is understood as access and use, on a permanent basis, of adapted financial services and products to the needs of adult populations and SMEs, offered by formal financial institutions or through an electronic medium.

3. Islamic finance in Senegal

The majority (96%) of the Senegalese population is Muslim. Islamic finance took its first steps in Senegal in 1983 (Bah, 2010). The Islamic Bank of Senegal was created on February 22, 1983. Since 2018, Coris Bank International has also developed an Islamic branch in the country, CBI Baraka. It took more than three decades for Senegal to recognize Islamic financial services (time newspaper 2022). In 2012, the government of Senegal authorized Islamic financial transactions and financial services, and it became a pioneer in Islamic banking and finance.Thus, in 2018, the Central Bank of West African States (BCEAO) set up a framework within which banks, financial institutions and micro-institutions in each member state of the West African region can execute Islamic financing operations. This legal framework outlines the parameters of Islamic finance in member countries. These initiatives are a consequence of Senegal's support for the acceptance of Islamic financing in the region's economic bloc (Kebe, 2022). In addition, in 1993 the first Islamic microfinance institution appeared, the Mutuelle d'Épargne et de Crédit Islamique du Sénégal (Seck and Biaye, 2019). However, the latter ceased all activity in the late 2000s and was replaced by Millenium Islamic Company of Senegal. In addition, the Islamic Finance Department of the Partnership for the Mobilization of Savings and Credit in Senegal also offers Sharia-compatible financial services. As for Islamic insurance, the insurance company Sen Assurance offers takafuls through its life insurance service. This offer is in addition to that of Salama Assurance Senegal, which also offers Shariah-compatible insurance products.Senegal issued a 100 billion CFA ($168 million) Islamic sovereign bond in June 2014. Senegal's private sector has begun to enter Islamic finance. CGF Bourse Company established the first Islamic mutual fund in 2017. Despite the fact that Senegal is the hub of Islamic banking and finance in West African countries.

II. Conclusion

Islamic finance, as a part of the Islamic economic system, has the responsibility towards the welfare of society. Therefore, the presence of Islamic banks should be felt at all levels of society, especially the poor because Islam is fundamentally pro-poor through its system of financial inclusion.Conclusion

Islamic finance, as a part of the Islamic economic system, has the responsibility towards the welfare of society. Therefore, the presence of Islamic banks should be felt at all levels of society, especially the poor because Islam is fundamentally pro-poor through its system of financial inclusion.

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