

Chapter 36

Impact of Financial Inclusion on Poverty Through Islamic Microfinance in Mauritania

Vatimetou Mokhtar Maouloud

International Islamic University of Malaysia, Malaysia

Salina Kassim

International Islamic University of Malaysia, Malaysia

Anwar Hasan Abdullah Othman

 <https://orcid.org/0000-0001-5759-8216>

International Islamic University of Malaysia, Malaysia

ABSTRACT

Poverty is a severe problem, particularly in third world countries. Since reducing poverty is the first goal of Sustainable Development Goals of the United Nations, it is the concern of numerous organizations and governments. This chapter is a conceptual paper that discusses the effectiveness of microfinance in eradicating poverty. The main purpose of this chapter is to present the current situation of poverty in Mauritania and the prospect to alleviate it through Islamic microfinance and financial inclusion. It also attempts to propose new suggestions for the Mauritanian government to alleviate poverty and increase people's wellbeing. It has been concluded that Islamic microfinance can reduce poverty in Mauritania. Thus, this research recommends policymakers and managers of Islamic microfinance to enhance the outreach of microfinance institutions to reach a large segment of vulnerable people. This study is among the pioneers in the field of Islamic microfinance in Mauritania, so it fills up this gap in the literature and adds new theoretical discussion to the topic worldwide.

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INTRODUCTION

Mauritania, the republic Islamic of Mauritania is in the northwest of Africa. It is bordered by Western Sahara from the north and northwest, Algeria by northeast, from east and southeast by Mali, Senegal from the southwest, and the Atlantic Ocean from the west. Mauritania has a population of 4.4 million people. Approximately all the population are 100 percent Muslims. Mauritania is among the poorest countries in Africa. Approximately 32 percent of Mauritians are living under relative poverty and 16.6 percent are under severe poverty which is less than 1.90 \$ USD (United Nations, 2016). Even though Mauritanian in a rich country in terms of natural resources, there is a lack of proper exploitation of these resources. Also due to government corruption, the revenue of these incomes is not distributed equally to the citizens.

Poverty can be defined as the lack of basic needs such as water, food, shelter, education, health care centers (Cuenca-García, Sánchez, & Navarro-Pabsdorf, 2019). Poverty; thus, is not only a lack of income or financial resource but also lack of the fundamental necessities that human being needs to survive on this earth. Poverty is not acceptable because it causes the deprivation of some people from all domains of life (Obayelu & Awoyemi, 2010). Therefore, poverty can be shown in different fields such as education, health, social inclusion, etc. to reduce the impact of poverty on people, governments have adopted different strategies.

Financial inclusion is the ease of access and usage to financial products and services from different types of financial institutions; in other words, it is the process to attract people who do not use financial institutions to deal with them and avoid transactions in the informal markets (Mohieldin, Iqbal, Rostom, & Fu, 2011). There are three main dimensions to financial inclusion which are access, usage, and availability of products (Ahmad & Mishra, 2018; Inoue, 2018; Shankar, 2013). Financial inclusion has a great impact on reducing inequality and increase financial stability, particularly in the MENA region as found by (Neaime & Gaysset, 2018). Tackling poverty is not easy and it needs a lot of efforts from governments and financial institutions to increase the rate of financial inclusion among the unbanked population (Chibba, 2009)

Microfinance is the provision of access and usage of financial products for those who do not have access to any other financial institution to poor and vulnerable and those who do not have access to financing otherwise (Yunus, 1998). Unlike conventional microfinance which applies high-interest rates on the loans, Islamic microfinance is an alternative to conventional microfinance that takes into consideration the social and moral aspects (Abbas & Shirazi, 2015; Riwayanti, 2013). Islamic microfinance provides only services that are following shariah such as micro-savings, micro-financing, Qard Hassan, and micro-takaful. Islamic microfinance services are beneficial and useful by Muslims as well as non-Muslims.

The World Bank (2018) demonstrated that by 2030 the poverty in Sub-Saharan African countries will be around 90 percent. This fact threatens Mauritania because its economy is fragile and vulnerable with real GDP growth of only 3.5 percent in 2017 and a low exportation rate. Additionally, there is a huge gap in the literature in the Mauritanian context related to the topic of financial inclusion, microfinance, and poverty. As mentioned by Makina (2017) African countries lack theoretical studies related to financial inclusion and microfinance, Mauritania is not an exception. Therefore, this research attempts to fill up this gap in the literature and add new discussion to the topic by exploring an alternative strategy to alleviate poverty and reduce the financial exclusion in Mauritania which Islamic microfinance. Since the Islamic Republic of Mauritania is 99 percent Muslim, the Islamic microfinance model can be useful to eradicate poverty and improve financial inclusion through Islamic microfinance institutions.

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