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Perceived inclusion of Islamic finance: The effects of attitudes, experience, literacy, religiosity, and social influences

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Abstract

The existing literature lacks demand-side perception studies on Islamic finance and its determinants, especially in developing markets. This study examines the influences of attitudes towards Islamic finance (ATTIF), financial experience (FE), Islamic financial literacy (IFL), religiosity (RL), and social influences (SI) on the perceived inclusiveness of Islamic finance (PIIF). This study used purposive sampling to obtain 400 questionnaire respondents from Zanzibar, Tanzania. The Smart-PLS (4) was used for analysing the data. We discovered mixed perceptions among the respondents regarding the inclusiveness of Islamic finance. Furthermore, the findings revealed a positive and significant influence of ATTIF, FE, SI, and RL on PIIF. ATTIF mediates the effects of RL and SI. The effect of ATTIF on PIIF is mitigated by IFL. The two most significant factors that determine PIIF are SI and ATTIF. RL was high among respondents but less important in determining PIIF. Islamic financial institutions should design products that fit society's needs by considering socio-cultural and economic dynamics. These findings have important policy implications for improving the inclusiveness of Islamic financial markets. This study provides new insight into the inclusion of Islamic finance and its determinants.

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1. Introduction

Financial inclusion encompasses the provision of accessible, relevant, and cost-effective financial services to individuals across all socioeconomic strata, devoid of unnecessary restrictions. This is an essential factor for the economic and welfare development of communities. Nevertheless, financial exclusion is still a global problem, especially among poor, uneducated, rural residents, as well as many Muslim communities (Demirgüç-Kunt, Klapper, Singer, & Ansar, 2022; Demirgüç-Kunt, Klapper, Singer, Ansar, & Hess, 2018). Consequently, governments and institutions are undertaking significant efforts and initiatives to promote financial inclusion (Ozili, 2018; Schuetz & Venkatesh, 2020). Among others, Islamic finance and banking are important financial inclusion initiatives intended to fulfil the religious needs, especially of Muslims (Alawode, Rehman, Aziz, Mohd, & Moin, 2020; Demirgüç-Kunt, Klapper, & Randall, 2013; Kamil, Bakhor, Zhang, & Aziz, 2020). Yet, the rate of unbanked populations is still high in many Muslim-majority areas, even where Islamic finance is developed (Ali, Sakti, & Devi, 2019; Demirgüç-Kunt et al., 2022). Globally, there is an increasing trend of banked populations (Demirgüç-Kunt et al., 2022; Demirgüç-Kunt et al., 2018). Nevertheless, a mere increase in the supply of financial institutions or the increased ownership of bank accounts is insufficient to justify the inclusiveness of the financial system (Ozili, 2018). Instead, an inclusive financial system should attract customers' willingness to adopt and use financial services while promoting financial freedom (Demirgüç-Kunt et al., 2022; Jouti, 2018; Mindra, 2016; Nigam, Srivastava, & Banwet, 2018; Ozili, 2018).

A description of financial inclusion requires both supply- and demand-side responses. Several studies have discussed aspects of financial inclusion from different perspectives, including barriers, innovative strategies, and surveys (Demirgüç-Kunt et al., 2022; Demirgüç-Kunt et al., 2018; Ernest & Young, 2017; Jackson & Massad, 2022; Ozili, 2020; Schuetz & Venkatesh, 2020; Sujlana & Kiran, 2018). Most prior studies on the financial inclusion of Islamic finance are based on supply-side determinants (Seman, Jamil, & Hashim, 2021). Zulkhibri (2016) cautioned that Islamic finance still has a long way to go to achieve its financial inclusion goals. Supply-side and demand-side improvements and research are required to enhance the inclusiveness of Islamic finance (Zulkhibri, 2016). Some researchers argue that most of the available Islamic financial products have failed to serve people's desires because of their expensive financing products and are primarily available in urban areas (Ismail, Ismail, Shahimi, & Shaikh, 2015). Other researchers reported some customers' concerns related to the operation of Islamic finance, including legitimacy and the quality of the services, which may limit the use of Islamic financial services (Zaman, Mehmood, Aftab, Siddique, & Ameen, 2017).

Thus far, there is a dearth of demand-side perception studies on the inclusiveness of Islamic financial services. Thus, demand-side factors of financial inclusion, such as specific personal and environmental factors, still require research attention (Jouti, 2018; Shihadeh, 2018; Shinkafi, Yahaya, & Sani, 2020). Understanding the peoples' perceptions and their underlying factors is crucial for promoting the adoption and inclusion of Islamic finance (Albaity & Rahman, 2019; Trianto, Yuliaty, & Sabiu, 2021; Zauro, 2017). Further, prior studies of financial inclusion in Islamic finance are from areas where Islamic finance is at an advanced stage, leaving behind the inclusion status of Islamic finance in other developing markets (Hassan, Hossain, & Unsal, 2018; Uddin, Ahmad, Dar, & Khan, 2023; Zaid, 2019). Prior studies have reported perceived low quality and irrelevant financial services among the critical challenges of financial inclusion. Subsequently, Barajas, Beck, Belhaj, and Naceur (2020) suggested that policy measures should focus on solving frictions that may limit the supply of financial services or those factors that cause voluntary and involuntary financial exclusion among people. Claessens and Suarez (2020) considered knowing your customers' (KYC) strategies as an essential policy to promote the demand for financial services.

Developing Islamic finance markets are characterised by low knowledge of Islamic finance, negative attitudes and perceptions among people, religious influences, and social pressures. Some people doubt the relevance of Islamic financial services, whereas others consider them useful (Mbawuni & Nimako, 2018). Some believe that Islamic finance is the backdoor to conventional financial services (Issa, 2018; Soud & Sayılır, 2017). Conflicting opinions about Islamic financial services are connected to personal and social dynamics, which include individuals' knowledge of Islamic financial services, religious sensitivity, financial behaviour, and social pressure (Demirgüç-Kunt et al., 2022; FinScope, 2017). Nevertheless, the significance and extent of these personal and social influences on perceived inclusion in Islamic finance require further investigation (FinScope, 2017). The current study suggests that whether a financial service is inclusive depends on customers' evaluations of their perceptions. Indeed, people's perceptions may have a significant effect on product acceptance and usage (Garrido-Morgado, González-Benito, & Martos-Partal, 2016; Zephaniah, Ogba, & Izogo, 2020). Understanding the determinants of financial inclusion in Islamic finance is critical for Islamic countries and emerging Islamic financial markets. However, empirical studies on emerging Islamic finance markets are scarce (Uddin et al., 2023). So, this study adds to what is already known by looking into how personal and social factors affect how inclusive people think Islamic finance is. This is important because it means we need to fully understand how these factors affect making financial systems more inclusive (FinScope, 2017; Jouti, 2018). This study provides new insight into the perceived inclusion of Islamic finance and its determinants. The findings of this study may have important policy implications for improving the inclusiveness of Islamic finance in developing markets.

Specifically, this study explores the influence of attitudes towards Islamic finance (ATTIF), Islamic financial literacy (IFL), financial experience (FE), religiosity (RL), and social influence (SI) on the perceived inclusion of Islamic finance (PIIF). Additionally, this study explored the moderating role of Islamic financial literacy. This study proposes an intervening empirical model that forms the basis for understanding potential customers, which is helpful for policy and operational measures by financial institutions. In addition to the structural model, this study applied an importance-performance-map-analysis (IPMA) of the smart Partial Least Square version 4 (Smart PLS4) to determine the most critical factors for the perceived inclusion of Islamic finance. IPMA has important policy implications (Ringle, Wende, & Becker, 2022). Social learning theory (SLT) states that people generate behaviour or learn through social interaction, observation, and imitation. Specific factors, such as attitudes, experience, and social influences, are necessary for behavioural changes (Ajzen, 1991; Bandura, 1977, 1989). Attitudes are an important personal capability component for behavioural changes, which depend on personality, the environment, and other behavioural factors (Kempson, Perotti, & Scott, 2013). This study extends the use of the SLT in Islamic finance studies by incorporating variables such as attitude towards Islamic finance, Islamic financial literacy, religiosity, and the perceived inclusion of Islamic finance, which are crucial for personal financial behaviour in Islamic finance. This study provides a mechanism to promote inclusion in Islamic finance by exploring the interactive relationships between personal and social factors and their effects on the inclusion of Islamic finance.

This research was conducted in Zanzibar, a semi-autonomous state of Tanzania's United Republic of Tanzania (URT). According to Demirgüç-Kunt et al. (2022), approximately 43% of the population is unbanked (Demirgüç-Kunt et al., 2022). Furthermore, Zanzibar's Islamic background creates a distinct demand for Islamic financial services. Expanding modern Islamic financial services should be a watershed moment for financial inclusion (FinScope, 2017). Nonetheless, people have differing views on the suitability, convenience, and Shari'a compliance of modern Islamic finance, necessitating careful examination. Furthermore, the nature of financial industry competition and the history of Islamic finance in Zanzibar have drawn on these perception studies.

The present study is segmented into four distinct areas. Section 1 addresses the research challenge, identifies the research gap, and highlights the significance of the study. Section 2 presents a comprehensive analysis of pertinent research on financial inclusion in order to establish the study framework and formulate hypotheses. Section 3 outlines the technique employed in the study. Section 4 presents and examines the findings of the investigation. The findings are discussed in Section 5. Section 6 encompasses the final analysis and the suggested course of action.

2. Literature Review

2.1. The Global Financial Inclusion Status

Recent financial inclusion status has raised concerns about whether available financial services and products reflect people's demands. Researchers and international organisations frequently conduct financial inclusion studies on the status and determinants of financial inclusion. Global Findex surveys provide comprehensive financial inclusion to investigate banked and unbanked populations (Demirgüç-Kunt et al., 2018; Demirgüç-Kunt & Klapper, 2012). Global Findex surveys form the basis of many financial inclusion studies (Uddin et al., 2023). Demirgüç-Kunt et al. (2022) observed significant developments in accessibility, uptake, and use of financial services. Demirgüç-Kunt et al., (2022) reported that approximately 76% of the world's adult population owns bank and mobile money accounts, and the remaining 24% of global adults are unbanked. The proportions of banked and unbanked populations differed between communities and regions. Many financially disadvantaged people live in developing countries, including China, India, Pakistan, and Nigeria. The Sub-Saharan Africa, Middle Eastern, and North African regions (MENA) have also reported high financial exclusion rates (Demirgüç-Kunt et al., 2022; Demirgüç-Kunt et al., 2018). The rate of unbaked people is high among women, the poor, youth, rural residents, and the unemployed. Financial exclusion may be voluntary or involuntary (Carbó, Gardener, & Molyneux, 2005; Sinclair, 2001), depending on factors such as distance from financial services, economic status, poor infrastructure, personality, and sociocultural barriers (Bogan & Wolfolds, 2022; Demirgüç-Kunt et al., 2022).

Until now, there has been an ongoing discussion among researchers on whether the increased rates of banked populations reflect the inclusion of financial systems (Ozili, 2023). Essentially, financial inclusion initiatives focus on improving the reach of formal finance for people of all classes (AFI, 2020). Thus, an inclusive financial system should be affordable, convenient, readily available, and relevant (AFI, 2022; The World Bank, 2022). Inclusive financial systems promote voluntary subscriptions to financial services. Inclusive financial services should reflect the needs and economic conditions of target customers (Ozili, 2018). However, most financial inclusion surveys focus on banked and unbanked populations, which is a necessary but insufficient justification for inclusion in the financial system. Ozili (2023) noted that even banked people could be losers from a financial inclusion perspective.

Moreover, assessing the inclusiveness of financial services by focusing only on supply-side impartments could provide biased information. The evaluation of financial inclusiveness should include public responses regarding the suitability of financial services to avoid misrepresentation and information bias (Demirgüç-Kunt & Klapper, 2012; Mindra, 2016; Nigam et al., 2018). This study is among the few demand-side studies focusing on the inclusiveness of Islamic finance.

2.2. Research Framework and Hypothesis Formulation

This study predicts the influence of attitudes towards Islamic finance (ATTIF), financial experience (FE), religiosity (RL), and social influence (SI) on perceived inclusion of Islamic finance (PIIF). These assumptions are based on the findings of prior studies (Karlan, Osman, & Shammout, 2021; Zaid, 2019; Zauro, 2017), social learning theories, and the financial capability approach (Bandura, 1977; Kempson et al., 2013). In addition, this study proposes the mediating role of ATTIF (Ajzen, 1991; Saurabh & Nandan, 2018; Sundarasen & Rahman, 2017) and the moderating effect of Islamic financial literacy (IFL). According to social learning theory (SLT), a person's behavioural changes depend on the interaction between personal factors and environmental circumstances. Thus, behavioural change is a product of the perceived positive or negative effects of such behaviour as well as observation and imitation from others (Bandura, 1977, 1989). The SLT supports this study's proposition that financial experience, perceived religiosity, and social influences are significant predictors of individuals' attitudes towards Islamic finance as well as the perceived inclusion of Islamic finance. Literacy significantly changes attitudes towards products, perceptions, and purchase behaviour (Rani, 2014). The interaction of Islamic financial literacy (IFL) in this study may provide essential policy inputs to enhance the community's awareness of and attitude towards Islamic financial services. Furthermore, the financial capability model considers attitudes and literacy among the crucial outcomes of social and personal interactions to change an individual's financial behaviours (Kempson, Collard, & Moore, 2006; Shephard et al., 2017). The research framework (Figure 1) consisted of three independent variables (FE, RL, and SI), one mediator variable (ATTIF), one moderator (IFL), and one dependent variable (PIIF). The research framework (Figure 1) hypothesizes the relationships between predictor variables and independent variables using hypotheses *H1-H8*.

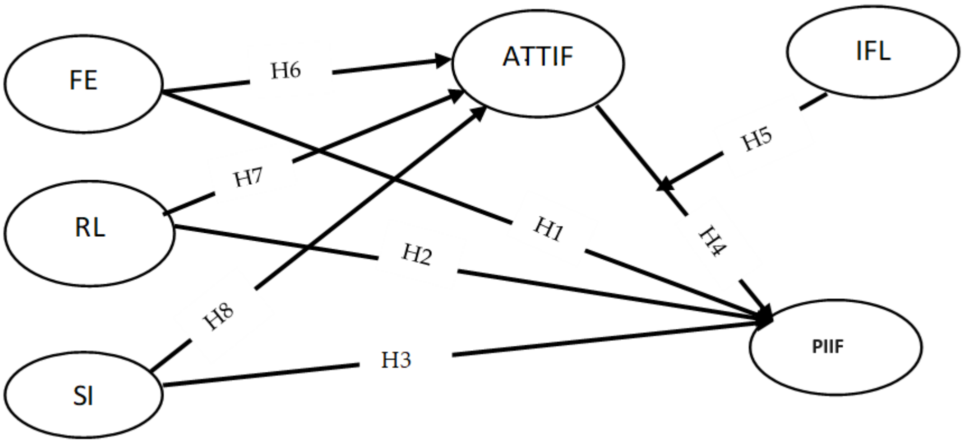

Figure 1. The research framework.

Note: FE: Financial experience, RL: Religiosity, SI: Social influences, ATTIF: Attitudes towards Islamic finance, IFL: Islamic financial literacy, PIIF: Perceived inclusion of Islamic finance.

2.2.1. The Perceived Financial Inclusion of Islamic Finance (PIIF)

Islamic finance, which operates under the principle of public interest (Qoyum, 2018), is a catalyst for financial inclusion (Kamil et al., 2020). Islamic finance should promote financial inclusion through Islamic social institutions such as *zakat*, *sadaqat*, *awqaf*, *trustee*, and other formal financing and banking services, as well as *Takaful* (Alawode et al., 2020; Seman et al., 2021; Zulkhibri, 2016). Thus, Inclusive Islamic financial systems require strong and sustainable Islamic financial institutions, including banks, insurance, *zakat*, *awqaf*, and trustee *(Amanah)* institutions (Iqbal, 2014; Jouti, 2018; Moh'd Khamis, Isa, & Yusuff, 2021; Mustafa, Baita, & Usman, 2018; Naceur, Barajas, & Massara, 2015). PIIF is the dependent variable in this study and refers to people's perceptions of the accessibility, affordability, and relevance of Islamic financial services.

2.2.2. The Influence of Financial Experience (FE) on the PIIF

FE represents an individual's prior experience of using traditional and modern financial services and facilities (Demirgüç-Kunt et al., 2018). A person is considered experienced if they have previously used modern and traditional financial facilities, including Automatic Teller Machine (ATM), debit cards, credit facilities, mobile money, and Internet banking. FE stimulates a sense of responsibility for managing personal finances (Ameliawati & Setiyani, 2018). People who have never used any financial services may face difficulties in using modern financial services and are likely to be financially excluded (Demirgüç-Kunt et al., 2022). However, there is a lack of empirical evidence on the significance of FE in the perceived inclusiveness of Islamic finance. Accordingly, this study hypothesises that FE influences perceived inclusion in Islamic finance (H1).

H1: Financial experience (FE) has a significant influence on the perceived inclusiveness of Islamic financial services (PIIF).

2.2.3. The Influence of Religiosity (RL) on the PIIF

Religiosity was also an independent variable in this study. Religious beliefs are powerful and can affect a person's life. Religiosity measures a respondent's sensitivity to religious matters and beliefs in God (Mokhlis, 2009). Religious beliefs may also influence the choice and use of financial services significantly. Globally, more than 10% of people avoid financial services because of religious beliefs. Indeed, religious reasons are common in Muslim majority areas, including Middle Eastern and North African regions, the United Arab Emirates, and Asian countries (Abdu, Jibir, Abdullahi, & Rabi'u, 2018; Ali, Devi, Furqani, & Hamzah, 2020; Demirgüç-Kunt et al., 2022; Hassan et al., 2018; Naceur et al., 2015). Despite being a common reason, religiosity and its significance in terms of financial inclusion remain contradictory. Religiosity may not be crucial for some people when choosing financial services because Muslims prefer conventional financial services (Jouti, 2018). Surprisingly, religiosity as a reason for self-financial exclusion is still common among Muslims, even decades after the introduction of Islamic financial services (Albaity & Rahman, 2019; Zaid, 2019; Zauro, 2017). Some people may use religion as an excuse to use financial services because of illiteracy or a lack of awareness about Islamic finance operations (Abdu et al., 2018). Accordingly, we predicted a significant influence of RL on PIIF (*H2*) as follows:

H_2: Religiosity (RL) has a significant direct influence on the perceived inclusiveness of Islamic financial services (PIIF).

2.2.4. The Impact of Social Influences (SI) on the PIIF

Social influence refers to the power of important community members to change their behaviours or attitudes through their opinions, values, or perceptions (Franzoi, 2005). Social influences (norms) affect attitudes and behaviour (Ajzen, 1991; Bandura, 1989). Social influence determines attitudes, spending, lifestyle, and financial decisions (Mindra, 2016; Yang, Chiu, & Chen, 2011). Indeed, social influence is an essential variable for behavioural changes (Ajzen, 1991), including the intention to use financial services (Mindra, Moya, Zuze, & Kodongo, 2017; Zauro, 2017). Demirgüç-Kunt et al., (2022) also listed the role of community members among the significant considerations towards enhancing financial inclusion. Similarly, local and religious leaders' opinions may significantly affect people's attitudes and decisions to open accounts at Islamic financial institutions (Demirgüç-Kunt et al., 2022; Zauro, 2017). Social influence (SI) is the independent variable in this study. Prior studies also demonstrated that social influence has a significant impact on personal financial management, financial attitudes, and financial inclusion (Ameliawati & Setiyani, 2018; Mindra et al., 2017). Accordingly, this study predicts the significant effect of SI (H3) as follows:

H_3: Social influences (SI) have a significant direct influence on the perceived inclusiveness of Islamic financial services (PIIF).

2.2.5. The Influence of Attitude towards Islamic Financial (ATTIF) on the PIIF

Attitudes towards Islamic finance (*ATTIF)* refer to a person's feelings or evaluative judgement about Islamic finance (Ibrahim & Alqaydi, 2013; Pankow, 2003). Financial attitudes reflect an individual's ability to manage personal finance (Haque & Zulfiqar, 2016; Rai, Dua, & Yadav, 2019). Prior studies have revealed that financial attitudes affect different aspects of personal financial management, including risk management, financial wellbeing, investment decisions, and financial satisfaction (Ameliawati & Setiyani, 2018; Arifin, 2018; Mien & Thao, 2015; Rai et al., 2019). Similarly, financial attitudes may also affect the intention to use financial services (Ali, Nazim, Hussain, Rehman, & Rehman, 2021; Mindra et al., 2017; Zauro, 2017). Furthermore, financial attitudes could mediate the influence of variables such as religiosity, literacy, social norms, financial socialisation, and financial behaviour (Albaity & Rahman, 2019; Saurabh & Nandan, 2018). If a person's financial attitudes are positive and appropriate, they must influence their financial behaviour (Ahmad, Moazzam, & Iram, 2019; Herdjiono et al., 2018). However, prior financial inclusion research needs to pay more attention to the role of attitudes towards Islamic finance. This study predicts the effect of attitudes towards Islamic finance on financial experience, religiosity, and social influence on the perceived inclusiveness of Islamic finance. The mediating role of ATTIF reflects planned behaviour theory (Ajzen, 1991), social learning theory (Bandura, 1977), and the financial capability approach (Kempson et al., 2013). Accordingly, this study predicted a significant effect of ATTIF on PIIF (*H4)*, as follows:

H_4: ATTIF has a direct influence on the perceived inclusiveness of Islamic financial services (PIIF).

2.2.6. The Moderating Effect of Islamic Financial Literacy (IFL)

Financial literacy is a vital prerequisite for financial engagement (Demirgüç-Kunt et al., 2022). Thus, spreading knowledge and creating financial literacy are among the essential strategies for promoting financial deepening (The World Bank, 2018, 2022). Islamic financial literacy (IFL) refers to the knowledge and skills required to manage financial matters in accordance with Islamic principles (Abdullah & Anderson, 2015; Abdullah & Chong, 2014; Rahim, Rashid, & Hamed, 2016). IFL is important for the personal financial management of Muslims (Aisyah & Saepuloh, 2019; Kartawinata, Fakhri, Pradana, Hanifan, & Akbar, 2021; Rahman, Tajudin, & Tajuddin, 2018a). Among others, IFL helps to understand the functioning of Islamic finance and to avoid involvement in prohibited financial transactions (Ab Rahman, Tajudin, & Tajuddin, 2018; Nawi, Daud, Ghazali, Yazid, & Shamsuddin, 2018). Similarly, Islamic financial services require basic knowledge of Islamic finance (Albaity & Rahman, 2019; Zaman et al., 2017). Financial literacy has a significant role in financial inclusion (Grohmann, Klühs, & Menkhoff, 2018; Mindra et al., 2017; Shinkafi et al., 2020; Zins & Weill, 2016). In addition, financial literacy moderates a variety of individuals' financial undertakings (Adomako, Danso, & Ofori Damoah, 2016; Niazi & Malik, 2019; Shusha, 2017). Also, financial literacy weakened the link between emotional intelligence and investment choices (Hadi, 2017); it weakened the effect of risk management and competitive advantage (Songling, Ishtiaq, & Anwar, 2018); it weakened the effect of overconfidence on investment choices (Ahmad & Shah, 2020); and it weakened the effect of cognitive biases on investment choices (Khan, 2020). However, empirical data are insufficient to support the moderating effect of Islamic financial literacy (IFL) on financial inclusion studies (Bünyamin & Mutlu, 2017; Mansyur & Ali, 2022). Consequently, this study establishes how the IFL variable affects the relationship between attitudes towards Islamic finance (ATTIF) and perceived inclusiveness (PIIF). Those with a basic understanding of Islamic finance can easily understand the beauty of Islamic financial services. As a result, we anticipated that IFL would have a considerable moderating influence on the effect of ATTIF on PIIF (*H5)*, as follows:

H_5: Islamic financial literacy (IFL) will moderate the influence of ATTIF on the PIIF.

2.2.7. The Mediating Effect of ATTIF

Based on the financial capability approach and social learning theory, people generate attitudes and behaviours by interacting with personal and environmental circumstances, including financial experience, religiosity, social pressure, and behavioural traits (Bandura, 1977; Kempson et al., 2013). Similarly, prior studies revealed the significant mediating effect of financial attitudes towards financial behaviour on various financial prospects (Faique et al., 2017; Jamal, Ramlan, Karim, & Osman, 2015; Saurabh & Nandan, 2018; Sundarasen & Rahman, 2017). Albaity and Rahman (2019) and Kaakeh, Hassan, and Van Hemmen Almazor (2019) reported a significant mediating effect of financial attitudes on intention to use Islamic finance (ATTIF). In this study, Hypotheses H6, H7, and H8 proposed the mediating effect of ATTIF.

H_6: FE has a significant indirect influence on the PIIF through ATTIF.

H_7: RL has a significant indirect influence on the PIIF through ATTIF.

H_8: SI has a significant indirect influence on the PIIF through ATTIF.

3. Methodology

3.1. Measurement of Constructs

This study used seven indicators adapted from Moh'd Khamis et al. (2021) to measure the perceived inclusiveness of Islamic finance and assessed social influences using seven indicators adapted from Taylor and Todd (1995). This study adopts three indicators from (Rahim et al., 2016) to measure religiosity. Financial experience was measured using six indicators adapted from the World Bank's Findex Survey Questionnaire (The World Bank, 2018). Attitudes towards Islamic finance were measured using seven indicators adapted from Ameliawati and Setiyani (2018) and Haque and Zulfiqar (2016). The study also adopted six indicators from Rahim et al. (2016) and Setyowati, Harmadi, and Sunarjanto (2018) to measure Islamic financial literacy. The measurement indicators for each construct are presented in Table 3 .

3.2. The Study Design, Data Collection, and Analysis Process

This study used a quantitative approach for data collection and analysis. The targeted respondents for this study were Zanzibar residents over the age of 18 and must be residents of the sampled ward in the region. The estimated total population of Zanzibar is 1.89 million, of which 54% are adults aged 18 years and older (OCGS-Zanzibar, 2022). Based on Krejcie and Morgan (1970) formula, the minimum sample size required was 384. Based on purposive sampling, a structured questionnaire was used to collect data from Zanzibar residents across all five regions (North region-Unguja, South region-Unguja, West region-Unguja, North region-Pemba, and South region-Pemba). Specifically, data were collected from 77 wards across all 11 districts in 5 regions. The sample wards were randomly selected from the list obtained from the Office of Chief Government Statistician (OCGS), Zanzibar (OCGS-Zanzibar, 2022). The number of respondents per ward (*Shehia)* was determined based on the population ratio per ward to the total Zanzibar population. This data collection technique provided an equitable distribution of responses by involving many respondents from highly populated areas (wards) compared to less populated areas. We received 400 questionnaires, which were suitable for further analysis. The results were analysed based on descriptive statistics using SPSS version 3 (Coakes & Ong, 2011; Field, 2015) and structural equation modelling (SEM) using Smart PLS version 4 (Ringle et al., 2022).

3.3. The Study Area

Zanzibar is an independent state within the United Republic of Tanzania (URT) that mandates planning its local policies and laws for matters outside the union agreement (Mzee & Othman, 2020). The Zanzibar government is officially known as the Revolutionary Government of Zanzibar (RGoZ). Zanzibar has five regions categorised into two main islands (the Unguja and Pemba Islands). These two islands differ in economic and social features, with Unguja being more developed and civilised than the Pemba Islands. Among others, enhancing the financial accessibility and inclusiveness of financial services is one of the strategic objectives of the Revolutionary Zanzibar and URT governments (NFIF, 2018-2022; RGoZ, 2017).

Furthermore, Islamic finance in Zanzibar has a long history and is old compared with conventional finance. However, traditional Islamic financial services are based on social financing such as *zakat* (almsgiving) and a*wqaf* (endowment). In addition, Islamic finance is famous in Zanzibar compared to many parts of Tanzania's mainland, except for Dar-es-Salaam. Modern Islamic finance began in 2008, when the People's Bank of Zanzibar established a window of Islamic banking services (Khamis & AbRashid, 2018). Currently, five banks offer Islamic banking services in Zanzibar, while initiatives to establish Islamic insurance are in good progress (Amana Bank, 2022; CRDB, 2022; KCB, 2022; NBC, 2022; PBZbank, 2022). In addition, there are solid foundations for Islamic social financing, including the *zakat, awqaf,* and *Amanah* (trustee) institutions. Islamic banking services dominate the Islamic finance markets in Zanzibar and Tanzania. Standard Islamic financial services provided by Zanzibar include savings, deposits, investment bank accounts, and financing services, especially *murabahah* (sales contracts), *ijarah* (lease contracts), *istisna'a* (products under construction), and *qard-el-hassan* (benevolent loans). Shari'a-compliant special accounts for specific groups, including savings accounts for women, low-income people, pilgrimages, retirees, diaspora, and motorcyclist transporters (Amana Bank, 2022; PBZbank, 2022). In addition, Islamic financial services are available through agent banking, mobile money services, online banking, and automatic teller machines (Bank of Tanzania, 2021).

The FinScope (2017) predicted that the growth of Islamic finance could boost the rate of inclusion among Zanzibar people because of their Islamic religious backgrounds. Despite these improvements, the (FinScope, 2017) reported approximately 43 per cent of unbaked people in Zanzibar. Previous studies reported mixed perceptions among Zanzibar residents regarding the appropriateness and affordability of Islamic financial services. Some Zanzibar residents perceive Islamic financial services as appropriate alternatives to conventional banking services compared to other residents (Issa, 2018; Khamis, Isa, & Yusuff, 2022; Soud & Sayılır, 2017). Perceptions of Islamic financial services are connected to personal and social dynamics, which include individuals' knowledge of Islamic financial services, religious sensitivity, financial behaviour, and social pressure (FinScope, 2017; Issa, 2018; Mzee & Othman, 2020; Omar, Yusoff, & Sendaro, 2017; Shkeily & Abdullah, 2021). Nevertheless, the significance and extent of these personal and social influences on perceived inclusion in Islamic finance require further investigation (FinScope, 2017). This study aims to address this knowledge gap.

4. Results and Analysis

4.1. Respondents' Profile

The demographic profile (Table 1) shows that the percentage of male respondents was higher than that of female respondents. Similarly, young-adults aged 18 to 39 years had a higher respondents' rate compared to adults aged 40 to 60 years. The monthly income for many respondents was less than Tanzania Shillings (TZS) 1,000,000 (US$ 427.35), whereas a few received a monthly income of TZS 1,000,000 and above. The respondents' profiles also indicated that many respondents possess higher education levels; only a few respondents reported lower levels of education or not attending any school (Table 1).

Table 1. Respondents' profile.

Characteristics	Respondents	Frequency	Percent
Gender	Male	215	53.75
	Female	185	46.3
Age	18 to 29 years	141	35.25
	30 to 39 years	103	25.75
	40 to 49 years	96	24
	50 to 59	49	12.25
	60 and above	11	2.75
Monthly income (Exchange rate: TZS/US$ =2340)	Less than TZS 300,000	187	46.75
	TZS 300,000 to 499,999	100	25
	TZS 500,000 to 999,999	62	15.5
	TZS 1000,000 to 1,999,999	21	5.25
	TZS 2000,000 to 2,999,999	11	2.75
	TZS 3000,000 to 4,999,999	10	2.5
	TZS 5,000,000 and above	9	2.25
Education	Not attended any school	8	2
	Primary education	19	4.75
	Ordinary secondary education	92	23
	Advanced secondary education	76	19
	Basic/Technical certificate	33	8.25
	Ordinary diploma	88	22
	Bachelor degree	52	13
	Post graduate	32	8

4.2. Distribution of Responses

The distribution of responses was categorised as minimum (min), maximum (max), mean (M), and standard deviation (SD), as shown in (Table 2). Based on a five-point Likert scale (1= strongly disagree, 5= strongly agree). The results indicate that most respondents perceived Islamic finance as inclusive, while others considered it insufficiently inclusive (M = 3.2491, SD = 0.70553). The average (mean) of the responses for financial experience among the respondents was low (M=2.2483, SD =1.10919), implying that many respondents needed more experience using financial services or facilities. The results revealed that most respondents acquired basic literacy in Islamic finance (M = 3.7591, SD= 0.80361) and had positive attitudes towards Islamic finance (M =3.7456, SD = 0.91590). Furthermore, the results revealed high religiosity among respondents (M = 4.6576, SD = 0.34878). The average (mean) social influence among respondents was high (M = 3.6882, SD = 0.95881), implying that most respondents agreed that their significant others recommended Islamic finance.

Table 2. Statistical distribution of questionnaire responses.

Variables	N	Min.	Max.	M	SD
PIIF	400	1.00	5.00	3.249	0.705
FE	400	1.00	5.00	2.248	1.109
IFL	400	1.00	5.00	3.759	0.803
ATTIF	400	1.00	5.00	3.745	0.915
RL	400	1.00	5.00	4.657	0.348
SI	400	1.00	5.00	3.688	0.958

4.3. Assessment of the Measurement Model

This section assesses the reliability and validity of the measurement model. The assessment of the validity and reliability of the model is based on indicator loadings, Cronbach's alpha (CA), composite reliability (rho_A and rho_C), and average variance extracted (AVE). Besides, this study assessed the discriminant validity by using the "Heterotrait-Monotrait (HTMT)" and "Fornell-Larcker criterion" (Fornell & Larcker, 1981; Hair et al., 2021; Henseler, Ringle, & Sarstedt, 2015).

4.3.1. Reliability and Validity of Measurement Model

Based on the results (Table 3), the indicator loading values (LV) for all constructs were above 0.5. The Cronbach's alpha (CA) and composite reliability (rho_A and rho_C) exceeded 0.8. In addition, the average variance extracted (AVE) was above 0.5. These results indicate sufficient internal consistency between the contracts. Further, these results show that the indicators have sufficiently measured the respective variables of the research model (Hair, Risher, Sarstedt, & Ringle, 2019; Wong, 2019).

Table 3. Reliability and validity of measurement model.

Variables and indicators	LV	CA	rho_A	rho_C	AVE	R^2	Q^2
Inclusiveness of Islamic finance (PIIF)		0.837	0.849	0.877	0.505	0.331	0.240
FI13 in Zanzibar, Islamic financial institutions are widely available.	0.666						
FI14 I can afford the initial fee of up to TZS 10,000 charged by an Islamic financial institution for opening an account.	0.672						
FI15 Islamic financial institutions' products and services are safe for me	0.680						
FI16 Islamic financial institutions have convenient hours of operation.	0.711						
FI17 Islamic financial institutions' products and services meet my requirements.	0.781						
FI18 Islamic financial institutions' products and services can improve my access to basic utilities or facilities	0.797						
FI19 because of the availability of online services, it is simple to obtain Islamic financial services.	0.653						
Attitudes towards Islamic finance (ATTIF)		0.891	0.895	0.913	0.567	0.215	0.192
ATTIF1 The information on certain Islamic financial products is sufficient and easily understood.	0.745						
ATTIF2 Islamic financial services charges are cheaper than conventional financial services.	0.822						
ATTIF3 Islamic financial products/services are attractive to customers.	0.746						
ATTIF4 Islamic financial transactions are more secure compared to conventional financial services.	0.766						
ATTIF5 It is wise to take credit facilities from Islamic financial institutions	0.695						
ATTIF6 Islamic financial products are uniquely featured.	0.789						
ATTIF7 I consider using Islamic financial services to be more useful than conventional financial services	0.745						

Variables and indicators	LV	CA	rho_A	rho_C	AVE	R^2	Q^2
ATTIF8 Islamic financial institutions' dealings are fair to customers.	0.711						
Financial experiences (FE)		0.866	0.892	0.898	0.596		
FE4 In the last 12 months, I have invested in individual stocks or bonds	0.847						
FE5 In the last 12 months, I have invested in mutual funds	0.831						
FE6 In the last 12 months, I have used modern financial service facilities, for example, ATMs, credit cards, debit cards, internet banking, and mobile money, checks, and bank transfers.	0.705						
FE7 In the last 12 months, I have borrowed from a store by using instalment credit or buying on credit.	0.822						
FE8 In the last 12 months, I have used a bank card to make a payment or make money	0.667						
FE9 In the last 12 months, I have taken out loans for student education.	0.742						
Islamic financial literacy (IFL)		0.813	0.824	0.857	0.500		
IFL1 Uncertainty (Gharar) is strictly prohibited in Islamic financial contracts.	0.746						
IFL2 Preservation of wealth is one of the objectives of Islamic finance.	0.651						
IFL3 I always make sure that there is no element of interest in all financial transactions that I make	0.636						
IFL4 I am aware of the Islamic financial instruments in the financial markets	0.689						
IFL5 An Islamic financial institution lends money according to the profit/loss sharing method (Musharakah)	0.759						
IFL6 Islamic financial institutions may provide interest-free loans (Quard Hassan).	0.752						
Religiosity (RL)		0.658	0.771	0.795	0.575		
RL4 I try to follow my religious beliefs in all matters of my life	0.806						
RL5 I cannot make important decisions without God's help	0.518						
RL6 I try to follow my religious beliefs in all matters of my life	0.899						
Social influences (SI)		0.877	0.881	0.905	0.577		
SI1 People who are important to me think that I should have an account at Islamic financial Institutions	0.753						
SI2 People who are important to me approve my decision to reach out to Islamic financial institutions for my financial needs.	0.812						
SI3 People who are important to me believe that Islamic financial services are safe to use	0.746						
SI4 People who are important to me think that I should use Islamic financial Institutions for saving, sending, and receiving money	0.795						
SI5 People who are important to me think that I should use Islamic financing or Borrowing products for my income-generating activities	0.699						
SI6 People who are important to me believe that I can afford Islamic financial services	0.750						

Variables and indicators	LV	CA	rho_A	rho_C	AVE	R^2	Q^2
SI7 People who are important to me think that Islamic financial services are cheaper to use	0.754						

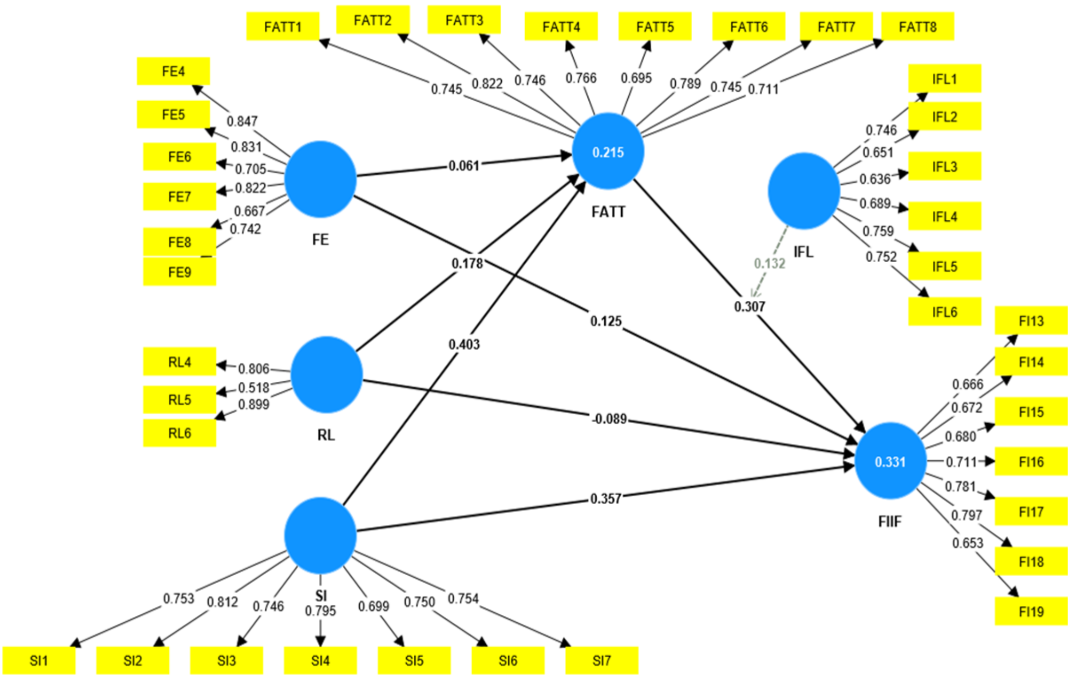

Figure 2. The structural model.

4.4. Evaluation of the Structural Model

4.4.1. Collinearity Test

In this study, the variance inflation factor (VIF) is used to determine the level of collinearity between variables. A VIF value lower than three indicates the absence of collinearity (Hair et al., 2019; Wong, 2019). Based on the results (Table 4), the VIF for all predictor variables in the study was less than three (3); hence, there was no collinearity problem.

Table 4. The variance inflation factor (VIF).

Construct	PIIF	ATTIF
ATTIF	1.830	-
FE	1.094	1.079
IFL	1.630	-
RL	1.126	1.035
SI	1.318	1.059
-	1.241	-

4.4.2. In-Sample Predictive Capacity (R^2)

In the sample, the predictive power of the structural model was determined based on R^2 values. R^2 indicates the strength of the predictor variables that influence the changes in endogenous variables in the model. An R^2 value greater than zero ($R^2 > 0$) indicates sufficient predictive capacity for the model (Hair et al., 2021; Shmueli, Ray, Estrada, & Chatla, 2016). The R^2 value of the dependent variable (PIIF) was 0.331 and that of the mediator variable (ATTIF) was 0.215 (Figure 2, Table 3). These results indicate that the independent variables have sufficient predictive capacity for the dependent as well as the mediator variables in the model.

4.4.3. Sample Predictive Capacity and Predictive Accuracy

Out-of-sample predictive capacity was determined using "k-fold cross-validation" (Shmueli et al., 2016). Table 5 compares the linear regression model (LM)'s Root-mean-square error (RMSE) and PLS's RMSE values. The predictive power was high when the naïve RMSE was higher than the PLS-RMSE for all the target variable indicators. When the naive RMSE was higher than the PLS-RMSE for most target variable indicators, predictive power was moderate. The model lacks predictive capacity when the naïve RMSE is lower than the PLS-RMSE for most target variable indicators (Danks, Ray, & Shmueli, 2017; Shmueli et al., 2019). Based on these results, the model has a substantial out-of-sample predictive capacity. In addition, q²_predict was greater than zero, indicating the sufficient predictive accuracy of the structural equation model Table 5.

Table 5. The k-fold cross-validation.

Target variable PIIF	PLS	LM (NAÏVE)	PLS - LM	q²_predict
	RMSE	RMSE	RMSE	
FI13	1.220	1.247	-0.027	0.098
FI14	1.155	1.138	0.017	0.062
FI15	1.141	1.181	-0.040	0.084
FI16	1.203	1.209	-0.006	0.130
FI17	1.101	1.107	-0.005	0.178
FI18	1.051	1.070	-0.018	0.193
FI19	1.217	1.201	0.016	0.089

4.4.4. The Model's Predictive Relevancy (Q^2)

Predictive relevance was determined based on Q^2. According to Hair et al. (2019), predictive relevance may be high ($Q^2 > 0.5$), medium ($Q^2 = 0.25$), low ($Q^2 < 0.25$), or none ($Q^2 = 0$). Based on the results in Table 3, the Q^2 value for the dependent variable (PIIF) was 0.240 (low), and the Q^2 value for the mediator variable (ATTIF) was 0.192 (low). Generally, the predictive relevance of the structural equation model is sufficient because Q^2 for the mediator and dependent variables is more significant than zero.

4.4.5. Evaluation of Path Coefficients

The structural model is shown in Figure 3. It shows the path coefficients for the direct and indirect effects of ATTIF, IFL, and RL on PIIF, as well as the effect of IFL mediating and the effect of ATTIF moderating.

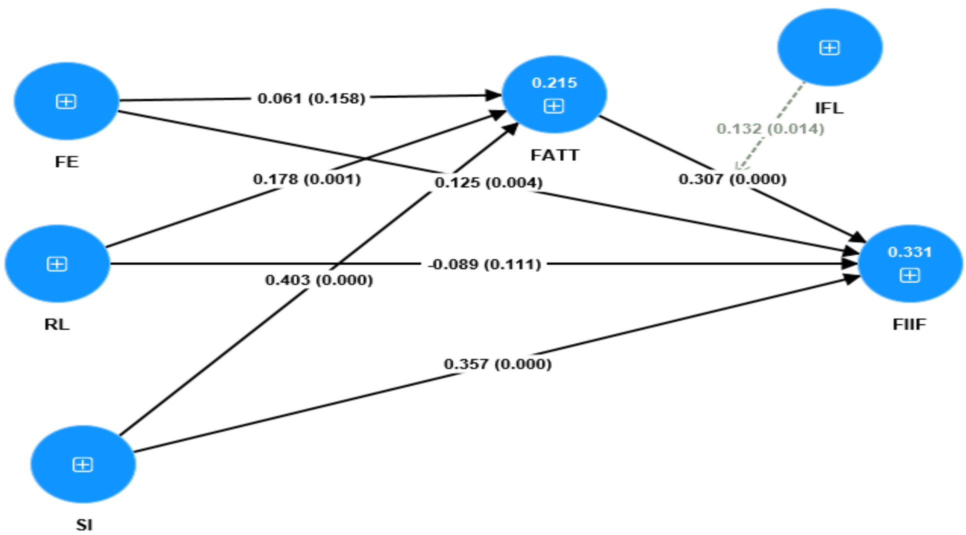

Figure 3. The structural model for the study.

4.4.5.1. The Direct Effect

The direct effects of the predictor variables were determined using path coefficients, significant values (p-values), and effect sizes (f^2) (Cohen, 1988; Hair et al., 2021). Hypothesis *H1* predicts a significant direct effect of FE on PIIF. Based on the results (Table 6), the direct effect of FE on PIIF is significant at the 1 per cent level ($ß = 0.125$, $p< 0.01$). The f^2 value of the IFL for PIIF was 0.021, indicating a satisfactory effect on the R^2 value of PIIF. These results support *H1*. Hypothesis *H2* predicted a significant direct effect of RL on PIIF. The results (Table 6) revealed an insignificant direct effect of RL on PIIF ($ß = -0.089$, $p = 0.111$). The f^2 value for RL in PIIF was 0.010, indicating an insufficient contribution of RL to the R^2 value of PIIF. These results failed to support Hypothesis (*H2*). Hypothesis *H3* predicted a significant direct effect of SI on PIIF. The results (Table 6) show a significant direct effect (ß) of SI on PIIF at the 1 per cent level ($ß = 0.357$, $p< 0.001$). The f^2 value of the SI for PIIF was 0.145, indicating that the SI was a significant predictor of the variance (R^2) in PIIF. These results support the hypothesis (*H3*). Hypothesis *H4* predicts a significant direct effect of ATTIF on PIIF. The results (Table 6) show a significant direct effect (ß) of ATTIF on PIIF at the 1 per cent level ($ß = 0.307$, $p< 0.001$). The f^2 value of ATTIF for PIIF was 0.077, indicating a vital influence of ATTIF on the variance (R^2) of PIIF. These results support the hypothesis (*H3*).

4.4.5.2. The Moderating Effect of IFL

Hypothesis H5 expected IFL to have a considerable moderating influence on PIIF. The results demonstrate a substantial moderating effect of IFL on the link between ATTIF and PIIF ($\beta = 0.132$, $p < 0.05$). The f2 of the moderation (IFL × ATTIF -> PIIF) was 0.022, demonstrating the considerable contribution of IFL in enhancing the link between ATTIF and PIIF. These data support H5.

4.4.5.3. Indirect Effect

In addition to the direct effect, this study also examined the indirect effects of IFL and RL on PIIF through the mediator variable (ATTIF). Hypothesis *H4* predicted an indirect effect of IFL on PIIF through the ATTIF. The results (Table 6) revealed a significant indirect effect of IFL on PIIF through ATTIF at the 1 per cent significance level ($\beta = 0.174$, $p < 0.001$). These results support H4: Hypothesis *H6* predicts an indirect effect of FE on PIIF through the ATTIF. The results (Table 6) revealed an insignificant indirect effect of FE on PIIF through ATTIF ($\beta = 0.0019$, $p = 0.196$). These results fail to support H6. Hypothesis *H7* predicted an indirect effect of RL on PIIF through the ATTIF. The results (Table 6) reveal a significant indirect effect of RL on PIIF through ATTIF ($\beta = 0.055$, $p < 0.05$). These results support H7: Hypothesis *H8* predicts an indirect effect of SI on PIIF through the ATTIF. The results (Table 6) reveal a significant indirect effect of SI on PIIF through ATTIF ($\beta = 0.124$, $p < 0.001$). These results support H7.

Table 6. Summary of the results and hypothesis test.

Hypothesis		ß	STDEV	T statistics	P values	f²	Remark
Direct effect							
H1	FE -> PIIF	0.125	0.043	2.889	0.004	0.021	Support H1
H2	RL -> PIIF	-0.089	0.056	1.594	0.111	0.010	Not support H2
H3	SI -> PIIF	0.357	0.053	6.765	0.000	0.145	Support H3
H4	ATTIF -> PIIF	0.307	0.067	4.576	0.000	0.077	Support H4
The moderating effect of IFL							
H5	IFL x ATTIF -> PIIF	0.132	0.054	2.458	0.014	0.022	Support H5
The mediating effect of ATTIF							
H6	FE -> ATTIF -> PIIF	0.019	0.015	1.293	0.196	0.004	Not support H6
H7	RL -> ATTIF -> PIIF	0.055	0.019	2.872	0.004	0.039	Support H7
H8	SI -> ATTIF -> PIIF	0.124	0.031	4.040	0.000	0.195	Support H8
Influence of independent variables on the mediator variables							
FE -> ATTIF		0.061	0.044	1.411	0.158		
RL -> ATTIF		0.178	0.052	3.420	0.001		
SI -> ATTIF		0.403	0.052	7.738	0.000		

4.4.6. The Important-Performance Map Analysis (IPMA)

This study also used the IPMA to determine the importance and performance of each variable in the model, which is vital for planning improvements (Hair et al., 2021). The map (Table 7) shows that social influence was the most critical predictor of PIIF, followed by attitude and financial experience, with moderate performance. Religiosity indicates high performance among respondents but is a less critical determinant in the model.

Table 7. Important-performance map.

Variables	Importance (Effect)	Performance
ATTIF	0.307	68.927
FE	0.144	31.238
IFL	0.005	67.620
RL	-0.034	88.842
SI	0.480	67.253

5. Discussion of the Results

5.1. The Influence of Financial Experience (FE) on the Perceived Inclusiveness of Islamic Finance (PIIF)

This study reveals that people who have previously used other financial services are more likely to consider Islamic financial services inclusive than those without experience. Based on these findings, experience with other financial services may result in a shift from conventional to Islamic financial services (Jouti, 2018). The findings confirmed that experience in using local and modern financial services and facilities has necessary implications for accessing and using financial services. Individuals who lack financial experience are among the most financially excluded (Demirgüç-Kunt et al., 2018; Demirgüç-Kunt & Klapper, 2012; FinScope, 2017).

5.2. The Influence of Religiosity (RL) on the Perceived Inclusiveness of Islamic Finance (PIIF)

Prior studies have confirmed that RL may have a direct or indirect effect on consumer purchase behaviour (Alam, Mohd, & Hisham, 2011), bank performance (Raksayudha & Suhartanto, 2019), and the intention to use Islamic finance (Zaid, 2019; Zauro, 2017). The current findings reveal an insignificant direct effect of religiosity (RL) on the perceived inclusion of Islamic finance (PIIF). However, RL had a significant indirect effect on PIIF through the ATTIF. According to the conclusions of this study, religion's influence is context- and environment-dependent. Many people in Muslim-majority areas mentioned religious reasons for not using financial services compared to followers of other religions (Demirgüç-Kunt et al., 2022; Demirgüç-Kunt et al., 2018; Zaid, 2019). However, no prior studies have empirically confirmed this effect (Jouti, 2018; Karlan et al., 2021; Raksayudha & Suhartanto, 2019). Based on the Tanzania-Zanzibar context, this study discovered that RL has an insignificant direct influence on PIIF but has a considerable indirect effect on PIIF. Karlan et al. (2021), some Muslims in Tanzania are likely to favor financial services that they believe to be of higher quality, even if they go against Islamic financial principles. This study suggests that high religiosity may influence attitudes towards Islamic finance, especially among Muslims. Consequently, complying with Islamic principles is crucial to attracting pious Muslims as financial service customers (Raksayudha & Suhartanto, 2019). Financial institutions may lose customers if they deviate from Islamic principles, making it difficult to achieve financial inclusion objectives (Alam et al., 2011). In addition to Sharia compliance, Islamic financial institutions should focus on improving the quality of their services and facilities to attract more customers (Khamis & AbRashid, 2018). These findings are essential for financial institutions that offer Islamic financial services, especially in non-Islamic countries with dual banking systems.

5.3. The Influence of Social Influence (SI) on the Perceived Inclusiveness of Islamic Finance (PIIF)

Social influences (SI) were the most significant and vital variable in attitudes towards and perceived inclusion of Islamic finance. These findings suggest that the opinions and perceptions of essential community members (such as religious leaders, local leaders, family members, and members of society) regarding Islamic finance have a crucial effect on people's attitudes and engagement in Islamic finance. Furthermore, the findings suggest that, if significant others favour using Islamic finance, people will likely be engaged in using these services. Based on the social learning theory (Bandura, 1977; Nabavi, 2012), people learn from others through observation and mimicking behaviour. Thus, these current findings favour social learning theory and other prior studies that social environment is an essential determinant of financial behaviour (Ameliawati & Setiyani, 2018), intention to use Islamic financial services (Albaity & Rahman, 2019; Zauro, 2017), and financial inclusion (Mindra et al., 2017).

5.4. The Influence of Attitude towards Islamic Finance (ATTIF) on the Perceived Inclusiveness of Islamic Finance (PIIF)

This study revealed a significant influence of ATTIF on PIIF. These findings imply that those who think positively about the appropriateness, convenience, and usefulness of Islamic finance are likely to perceive it as inclusive. The perceived inclusion of Islamic finance depends on people's evaluative judgement of Islamic financial services and products. This study aligns with prior studies showing that attitudes determine financial inclusion (Mindra, 2016), such as the intention to use Islamic financial services (Albaity & Rahman, 2019; Zauro, 2017). In addition, these findings confirm that ATTIF mediates the influence of RL and partially mediates the influence of SI on PIIF. The findings suggest that a person's attitude towards Islamic finance depends on the opinions and experiences of significant others using financial services. Greater religiosity may result in a positive attitude towards Islamic finance, especially among Muslim communities. Thus, social inclusion and compliance with Sharia are crucial for Islamic financial institutions to create a positive societal image. The perceived inclusion of Islamic finance depends on how well Islamic financial institutions portray their image to the public. This image may depend on the modality of service provision, awareness creation, and degree of engagement in social responsibilities. These findings align with prior studies that consider attitudes as a significant predictor of a person's behaviour (Ajzen, 1991; Bandura, 1989), including financial behaviour (Ameliawati & Setiyani, 2018; Kempson et al., 2013).

5.5. The Moderating Effect of Islamic Financial Literacy (IFL)

This study revealed a significant interactive role that IFL plays in the relationship between ATTIF and PIIF. These findings assert that Islamic financial literacy (IFL) strengthens the relationship between the attitude towards Islamic finance (ATTIF) and the perceived inclusiveness of Islamic finance (PIIF). Further, the current findings suggest that IFL may result in positive ATTIF, which is crucial for financial inclusion. People need an understanding of the basic Islamic financial concepts and services to embrace and use them. People who understand finance are likely to adopt or intend to use Islamic financial services (Albaity & Rahman, 2019; Ali et al., 2021; Kartawinata et al., 2021). Considering the novelty of Islamic finance, the need for greater Islamic financial literacy is a challenge in developing Islamic finance markets (FinScope, 2017; Karlan et al., 2021). Thus, creating public awareness and knowledge of Islamic finance can strengthen attitudes towards Islamic finance and boost financial inclusion.

6. Conclusion and recommendations

This study examined the perceptions of the people about the inclusiveness of Islamic finance. In addition, this study examined the influence of attitudes towards Islamic finance (ATTIF), financial experience (FE), Islamic financial literacy (IFL), religiosity (RL), and social influences (SI) on the perceived inclusiveness of Islamic finance (PIIF). The data for the study were collected using structured questionnaires distributed to Zanzibar residents in Tanzania. By using purposive sampling, 400 questionnaire responses were received. The structural equation modelling (SEM) of Smart PLS 4 was used for the analysis. The findings reveal mixed perceptions of the inclusiveness of Islamic finance (PIIF) among Zanzibar residents. Some people think Islamic finance is inclusive, whereas others perceive it to be less inclusive. In addition, the findings revealed a significant direct influence of financial experience (FE), social influence (SI), and attitudes towards Islamic finance (ATTIF) on PIIF.

The effect of religiosity (RL) on PIIF was indirect only; the direct effect was insignificant. The influence of FE was only direct; the indirect effect was insignificant. These findings confirm the significant mediating role of ATTIF on the influence of RL and SI on PIIF. This study suggests that attitudes towards Islamic finance have important implications for the perceived inclusiveness of Islamic finance. Perceptions of Islamic finance may differ between people and communities due to experiences of using financial services or social pressure. Religiosity is the least significant predictor of the perceived inclusion of Islamic finance. These results imply that the success of Islamic finance towards financial inclusion depends on changing people's perceptions and attitudes, which are subject to financial experience, religiosity, and social influences. Islamic financial literacy (IFL) may improve attitudes towards Islamic finance (ATTIF), which is a significant predictor of perceived inclusion. People with a basic knowledge of Islamic finance are likely to prefer Islamic finance. These findings have important policy implications for improving the inclusiveness of Islamic finance in developing markets, including Tanzania and East Africa.

Among others, Islamic financial institutions must minimise the interaction gap with society through corporate social responsibility programs. Investing in better, higher-quality customer service and using modern facilities may bring a good reputation to customers' experiences of using Islamic financial services. Islamic financial institutions should arrange educational programs in Islamic finance. These education and promotion programs should target residents, including religious leaders, rural residents, teachers, and village leaders. Islamic financial operations must comply with Islamic principles. Accordingly, Islamic financial institutions should follow the proposed *maqasid sharia* framework that priorities the public interest (*maslah al-mursalah*) over the profit motive. Islamic financial institutions (IFI) should remember that the financial inclusion objective is their social obligation and not just an opportunity to generate super profits. Profit motives should follow the Shari'a compliance motives. The IFI should examine socioeconomic environments to understand the needs of prospective customers and provide appropriate financial services that fit their economic and sociocultural status. This study is limited to the perceived inclusion of Islamic finance on the demand side. Future studies should examine intervention strategies, innovative Islamic financial schemes, and their influence on enhancing the inclusiveness of Islamic finance in emerging markets. This study was conducted in a single country and involved only 400 respondents. Further studies should consider other areas and involve more respondents.

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