



**CHALLENGES HINDERING ISLAMIC MICROFINANCE
BANKS' SUSTAINABLE FINANCIAL INCLUSION:
A CASE OF AL-HAYAT MICROFINANCE BANK IN OGUN
STATE, NIGERIA**

Adnan Opeyemi Salaudeen¹, Habeebullah Zakariyah²

IIUM, Institute of Islamic Banking and Finance Malaysia

¹adnanopeyemi@gmail.com, ²habzak@iium.edu.my

Abstract: Microfinance is regarded as an effective technique of poverty alleviation since it provides access to financial resources that can assist in poverty reduction by increasing financial involvement and empowerment. However, despite the fact that microfinance banks account for the vast bulk of the market in Nigeria, with over 800, their contribution to the country's economy is less than 1%. Additionally, the primary objective of poverty eradication has not been accomplished. Thus, existing research has positioned Islamic microfinance institutions as a viable tool for poverty alleviation in Nigeria. However, Islamic microfinance banks in Nigeria continue to witness minimal development. This research investigates the challenges hindering the development of Islamic microfinance banks in Nigeria. Semi-structured interviews were used to collect data for this study. In addition, data reduction, coding, integration, and visualisation steps are implemented to analyse data effectively. The finding shows that several regulatory issues, such as licence procedures requiring paid-up capital, are some challenges. Likewise, awareness, misconceptions, and acceptance remain significant hindrances faced by IMFBS in Nigeria. Additionally, IMFBS face some in-house challenges, such as a lack of Islamic fintech, convenient access to the unbanked community, and human capital. Consequently, the study recommends that stakeholders in the Nigerian

financial system launch public awareness campaigns about the significance of Islamic microfinance banks in promoting financial inclusion and reducing poverty.

Keywords: Islamic Microfinance, Poverty, Financial Inclusion, Al-Hayat Microfinance Bank, Nigeria.

INTRODUCTION

Poverty is widely recognised as one of humanity's fundamental problems. One of the most crucial tasks of the 2010-established Sustainable Development Goals (SDG) is eradicating poverty by 2030. Poverty was defined in the Global Monitoring Report (Glob. Monit. Rep. 2009, 2009) as the percentage of the population that lives on less than \$1.25 per day. According to the World Bank (2019), nearly half of the world's population, 2.8 billion people, live on less than \$2 per day, while 1.2 billion live on less than \$1. Africa is one of the continents that is hit uniformly by the menace of poverty. Over 60% of the population in Sub-Saharan Africa lives on less than \$1.25 per day. Almost 90% of Africa's poor live on less than \$2 per day, increasing poverty (World Bank, 2019). With a population of nearly 200 million, Nigeria is Africa's most populous country. Nigeria is Africa's largest economy and the world's 26th largest economy, with a US \$600 billion GDP, about N81 trillion. (World Bank, 2018). Unfortunately, poverty in Nigeria grows at a greater rate than the population. According to the World Bank's (2019) study, poverty accounts for more than 70% of the total, implying that over 130 million people live in poverty. The analysis finds that Nigeria has surpassed India as the world's second poorest country.

There has been a growing international consensus to concentrate development goals on poverty alleviation in recent years. Governments have agreed to develop and enforce anti-poverty policies with time-bound goals and targets for significant poverty reduction (Alkire & Jahan, 2018). Bilateral or multilateral organisations, states, and non-governmental organisations (NGOs) emphasise the importance of the latter group in poverty alleviation programmes worldwide. Most non-governmental organisations argued and questioned the government's historical failures to solve wealth problems and redistribute resources, which are the root causes of poverty (Olomola, 2002). Numerous efforts have been made in Nigeria by both previous and current governments to alleviate poverty through microfinance. Several microfinance platforms have been launched to counter the threat of poverty through traditional and Islamic microfinance. Despite numerous microfinance initiatives, poverty remains an issue that attracts the government, private sector, and non-governmental organisations (NGOs) because many Nigerians lack access to financial services.

Besides, despite the number of microfinance banks in Nigeria vast majority in the market, with over 800 Microfinance banks, their contribution to Nigeria's economy is less than 1%, compared with banking sectors that contributed around 10%, according to the National Bureau of Statistics (NBS), (2020). Regrettably, the lack of microfinance facilities and financial inclusion has widened the poverty ratio in the country. Similarly, over 60% of Nigeria's SMEs are financially excluded from mainstream financial opportunities due to the requirement of conventional microfinance banks, according to the National Bureau of Statistics (2019). However, small-scale businesses

spring up daily but need micro-credit facilities, which Islamic microfinance banks can offer.

Furthermore, out of 800 Microfinance banks, there are less than 10 Islamic microfinance banks in Nigeria. Hence, Islamic microfinance banks in Nigeria continue to witness minimum or no development in Nigeria. As a result, financial exclusion, lack of awareness, distrust, the high cost of running a unit microfinance bank (due to CBN capital requirements), liquidity pressure, insufficient human resources, and a lack of Islamic banking-based financial technology, among other factors, are likely to be the root causes of this low development. (Dogarawa, 2012; Gumel, Saad, & Kassim, 2014; Onakoya & Onakoya, 2014). In addition, some people still do not trust microfinance banks industries as a whole due to several financial burdens and hiccups caused by existing conventional microfinance banks.

One of the numerous Nigerian supportive investment and credit unions is the Al-Hayat Relief Foundation (Islamic NGO). It is one of the Islamic interest-free cooperative unions in the country. Salako & Azeez (2018) explained that the Cooperative Society was created on March 15, 1997, to help Muslims who were forced to take out loans from shady lenders who charged high-interest rates on their loan funds (Salako & Azeez, 2018). The foundation is based in Ijebu-Ode, Ogun State, and is registered with the Nigerian Corporate Affairs Commission (CAC).

In 2014, the foundation established Al-Hayat Microfinance Bank Limited to expand its micro-credit facilities and financial inclusion tactics beyond its members (Noibi & Adewole, 2015; Salako

& Azeez, 2018). The primary goal is to incorporate non-NGO Muslims and non-Muslims in Ijebu-ode, Ogun State, and beyond into their agenda and objectives to alleviate poverty. Several studies (Adepoju & Oyesanya, 2014; Bilqis, 2012; Salako & Azeez, 2018) have identified and projected several bank methods to achieve long-term financial inclusion in Ogun state. However, little has been written about the difficulties and setbacks that have prevented Al-Hayat Microfinance Bank (AMFB) from accomplishing its primary objectives after six years in operation, extending its financial inclusion and facilities beyond Ogun State.

Therefore, this research investigates the challenges hindering the development of Islamic microfinance banks in Nigeria. It also intends to offer solutions and recommendations to help Islamic microfinance banks bring back people's trust by extending their financial inclusion through numerous Islamic micro-credit products as a feasible alternative to the existing conventional microfinance banks loan with a high-interest rate scheme.

LITERATURE REVIEW

Poverty is defined as a state in which a community or portion of the population cannot meet basic requirements such as food, clothes, and shelter to maintain a certain living level (Mohr, 2016). Carney (1992) argues that poverty is multidimensional and should be seen as a product of economic, social, political, and religious issues in a particular society. In general, poverty is caused by both economic and non-economic reasons, and thus efforts to eradicate it must not be

limited to income per capita. This has far-reaching ramifications for governments and organisations tasked with poverty eradication.

According to Lok-Dessallien, (1999), “People are poverty-stricken when their incomes, even if adequate for survival, fall radically behind the community standard. As a result, they are degraded, for, in the literal sense, they live outside the grades or categories which the community regards as acceptable.” He further goes to the conditions specifically when he states that individuals living in poverty have such limited and insufficient food, inadequate clothing, and overcrowded, cold, and filthy housing that life is miserable and relatively short. This is similar to the perception of Anand and Sen (1997), who explained that poverty exists when a family’s or an individual’s resources are insufficient to maintain a socially acceptable standard of living.

According to World Bank (2019), financial inclusion provides affordable and sustainable financial services to underprivileged and low-income parts of society (Ishak, 2020). As a result, financial inclusion has gained increased prominence among policymakers, researchers, and development-oriented organisations worldwide. Its significance stems from its promise as a tool for economic growth, notably in poverty reduction, job creation, wealth creation, and general welfare and standard of life improvement (Madise, 2019).

According to a 2008 survey conducted in Nigeria by a development finance group, the Enhancing Financial Innovation, over 53.0 percent of Nigerians could not access financial services (EFInA, 2021). Global efforts to promote financial inclusion as a means of economic development have benefited Nigeria, where the exclusion rate

has decreased from 53.0 percent in 2008 to 46.3 percent in 2010. Encouraged by this positive outcome, the Central Bank of Nigeria, in conjunction with stakeholders, established the National Financial Inclusion Strategy on October 23 2012, intending to further lower financial exclusion to 20% by 2020. Adult Nigerians with access to payment services are expected to increase from 21.6 percent in 2010 to 70 percent in 2020, while those with access to savings are expected to increase from 24.0 percent to 60 percent; credit is expected to increase from 2% to 40%; insurance is expected to increase from 1% to 40%; and pensions are expected to increase from 5% to 40% during the same period (Central Bank of Nigeria, 2017).

Microfinance delivers financial services to the poor and low-income households, which traditional banks largely ignore (Seibel, 2003). These financial services include credit, savings, micro-leasing, money transfer, and payment services. In addition, microfinance is distinguished from other forms of formal financial products by the small advanced loans and savings collected, the absence of asset-based collateral, and the simplicity of processes. According to Seibel (2005), Microfinance provides various financial services such as deposits, loans, payment services, money transfers, and insurance services for households of poor and low income and their microenterprises.

Similarly, Nwanyanwu (2011) described microfinance as a relatively basic framework that has been proven worldwide to empower impoverished people and pull themselves out of poverty. It can be concluded from the above definitions that microfinance is a poverty alleviation mechanism that functions by the provision of credit and other financial resources for poor, low-income households and SMEs.

Microfinance assists the vulnerable in increasing their wages, developing sustainable businesses, reducing exposure to shocks, and creating jobs to accomplish the goal of poverty alleviation (Yakubu, Haruna, & Mohammed, 2018). The Asian Development Bank (ADB) identified microfinance as providing financial products such as savings, loans, transfers, and insurance to low-income individuals and businesses. The ADB's definition of microfinance concentrates on low-income families below the poverty line. However, many families above or near the poverty level require financial products, particularly in rural regions (ADB, 2002). The increased awareness of microfinance's potential for poverty reduction, economic growth, and development, along with rapidly growing microfinance institutions, has effectively placed the topic of microfinance on the political agendas of many developing nations. Several microfinance models have been around for decades in various parts of the world. These microfinance strategies have evolved to accommodate changes (Central Bank of Nigeria (CBN), 2017).

Orodje (2012) uses comparative research to demonstrate that the direct contrast between community banks and their microfinance successors is the extent to which individuals are permitted to own them under regulatory constraints. In addition to individuals, groups of individuals, community development associations, and private corporate organisations that may own community banks, international investors and commercial banks may own microfinance banks. These adjustments to the microfinance policy framework were developed in response to the apparent failure of the initial framework. However, he

finds that the microcredit supply remains insufficient despite decades of government provision and control of microcredit, policy orientation, and the emergence of new actors.

Furthermore, Okpara (2010) conducts a quantitative study based on secondary data from the National Bureau of Statistics (NBS), which outline some of the impediments to microfinance organisations' performance, including under capitalisation, inefficient management, legislative and supervisory gaps. Olayemi (2012) add usurious interest rates and ineffective outreach to this list. Also, Iganiga (2008) study the challenges facing microfinance banks. The report identified fund diversion, insufficient financing, and frequent changes in government policies as hindrances to the growth of this subsector. It also identified high transaction costs, massive loan losses, low capacity, and low technical skills in the industry as impediments to growth. Many of these issues, which contributed to the collapse of past microfinance systems, continue to plague Nigeria's microfinance banking system in Nigeria (Egboro, 2015).

Mohammed & Hasan (2008) conducted the first of several studies on Why existing traditional MFBs have failed to achieve significant financial inclusion and how Islamic MFBs may fill in the gap to alleviate poverty. The study takes a qualitative approach to depict Islamic MFB as a viable alternative to the government's poverty-eradication efforts. The study estimates that Nigeria's existing microfinance sector serves less than a million people who require the service out of 40 million. Additionally, the study discovered that aggregate microcredit facilities in Nigeria amount to less than 1% of

total credit in the economy, according to National Bureau of Statistics (NBS) data.

Oyesanya (2013) conducts a study of Islamic microfinance institutions in Ogun State, Nigeria, focusing on Al-Hayat Relief Foundation is in the forefront. He asserts that Al-Hayat was founded to promote giving interest-free loans to its registered members, the Islamic economic system's course on a case-by-case basis and other assistance packages. Al-Hayat, he notes, has grown across six states in Nigeria, namely the states of Ogun, Lagos, Osun, Oyo, Ondo, and Kwara. He indicates the quantity of forty branches and a total membership population of six thousand. Al-Hayat Relief Foundation achieved one of its development goals in 2014 when it acquired a microfinance bank unit (Al-Hayat Microfinance Bank Ltd). Thirty million shares valued at one naira each were issued to form the bank.

The foundation's mission to extend its micro-credit facilities and expand its financial inclusion strategies beyond its members prompted them to establish Al-Hayat Microfinance Bank Limited in 2014 (Noibi & Adewole, 2015; Salako & Azeez, 2018). The primary purpose is to include non-NGO Muslims and non-Muslims in Ijebu-ode town in Ogun State and beyond to reduce poverty as part of their manifesto and objective. Some study (Adepoju & Oyesanya, 2014; Bilqis, 2012; Salako & Azeez, 2018) has established and projected several bank strategies to achieve sustainable financial inclusion in Ogun state. However, little has been written on the challenges and hiccups hindering Al-Hayat Microfinance Bank (AMFB) from achieving its

primary goals after 6years of business. This paper aims to explore and investigate those challenges and deliver feasible solutions.

METHODS

This study adopts qualitative research techniques to fulfil its objective and is mainly based on primary data collection due to the limited published materials on Nigeria’s Islamic microfinance bank under study. Therefore, a purposive non-probability sampling technique is adopted. The semi-structured interview was conducted to collect data for this study. In this case, five members of AMFB were selected; two from the board and three staff members. As common standard and practice, each informant received a letter of consent attached with proposed interview questions via e-mail and responded with their preferred time and location. All interviewees’ names were coded, and the English language was used as the medium of conversation. All conversation was recorded and transcribed verbatim. In addition, data reduction, integration, and visualisation steps will be implemented to analyse data effectively.

Table 1: Participant’s Profile: ID, Position, Educational Background, and Level.

| PARTICIPANTS’ ID | POSITION AT AMFB | EDUCATIONAL BACKGROUND | LEVEL OF EDUCATION |
|------------------|----------------------|------------------------|--------------------|
| SH1 | High Ranking Officer | Islamic studies | Ph.D |
| SH2 | High Ranking Officer | Islamic Studies | Ph.D |
| BS1 | Mid-level Officer | Accounting | M.Sc |
| BS2 | Mid-level | Computer | M.Sc |

| | | | |
|-----|---------------|-----------|------|
| | Officer | Science | |
| BS3 | Field Officer | Marketing | B.Sc |

Source: Researcher's

RESULT AND DISCUSSION

The findings obtained from the collated data are of the sections: External factors hindering Al-Hayat MFB's financial inclusion, Internal challenges minimising the bank development, and the bank's efforts to fill the professionalism shortage through self and collaborated training models.

Regulatory and Supervisory Framework

In order to support the objective to institutionalise non-interest banking services across the nation, many recommendations have been published to speed up banking. These guidelines have been implemented in Nigeria to benefit non-interest financial institutions. Nevertheless, These efforts have not yet succeeded in elevating the system to a progressive condition.

The Central Bank of Nigeria (2005) Guidelines specify the types of banks granted operating permits in Nigeria, including Islamic banks (Section 4 (2), Regulation on the Scope of Banking Activities and Related Matters, 2005). The stakeholders' views, opinions, and ideas are the primary reasons for the revised rules' introduction. The revised guideline incorporates several significant aspects. For example, the concept of 'non-interest banking' has been expanded to encompass both non-interest banking methods specified in Bank and Other Financial Institution Act (BOFIA). It is critical to emphasise that discrimination amongst stakeholders is wholly prohibited.

During the amendment process, the Islamic-law experts, often referred to as Sharia Council, were renamed the Advisory Council of Experts (ACE) to advise the CBN on compatible and marketable financial instruments accessible in the financial market. Seven Islamic financial instruments, including Murabaha, Mudarabah, Musharakah, Ijarah, Salam, Istisna, and Sukuk, were included in these Guidelines in their appropriate forms. However, on the other hand, separate frameworks were not exhaustively described. Additionally, the legislation provided an Islamic window service for regular banks, allowing for cross-selling services at conventional banks.

According to BS1 on the issues of the regulatory framework hindering AMFB and several other IFI in Nigeria:

“We have 900 microfinance banks in Nigeria and out of them those who are practising Islamic finance are not up to 10, which is very low, you cannot even demand what you need or want, you cannot demand that you need a legal or separate framework that is quite different from conventional bank to compare what you have. Now, comparing both together is almost the same thing, whereas it is supposed to be separate from the conventional bank, which is the number one problem. Also, the guidelines we are using are tailored towards conventional banks, except we have guidelines that distinguish us. So we recommend that both the CBN and Nigeria governments follow the step of other countries like Malaysia...”

BS1 recommended that CBN follow the steps of the likes Malaysia issue a separate Act; for example, BNM distinguishes IFI's IFSA 2013 IFI from conventional's FSA 2013. In addition, CBN should

issue a different act for IFI apart from BOFIA 1991. BS1 also commented on the issue of the CBN treasury bill:

“Secondly, The Nigeria treasury bill is the worst. So it has an element of interest, and AMFB must invest in the treasure bill, as stated in the guideline, which is a problem for us. As an Islamic bank, we are not investing there because that contradicts our principle that we need an investment opportunity that will be sharia-compliant”.

Additionally, SH2 relate AMFB's regulatory hindrances back to the conventional licence issued to them:

“until we have the Islamic license. Unfortunately, there are certain rules and regulations and staff that you must have before you can operate on Islamic banking. We have to wait for that in full, there must be experts, and there are rules and regulations concerning this...”

The Central Bank of Nigeria (CBN) implements a centralised shariah governance, supervisory and regulatory system. This kind of system required a specific standard laid to the SAC of all IFIs to implement and report back upon shariah compliance violation. Although the CBN guideline requires all IFIs to adhere to applicable standards issued by Islamic Banking and Finance (IBF) standard-setting organisations such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB); and to report and disclose accounting information under applicable standards issued by the Nigerian Accounting Standards Board (NASB), now known as the Financial Reporting Council (FRC). Additionally, the recommendations mandated that all NIFIs adhere to the Generally Accepted Accounting

Principles (GAAP) as specified in the NASB's local standards and to the International Financial Reporting Standards (IFRS)/International Accounting Standards (IAS) Central Bank of Nigeria (CBN), 2017).

However, BS2 gave a response when asked about the implementation of specific shariah standards. The response aligns with Acha (2012), Bello & Abubakar (2014) findings on harmonisations of Shariah standards in Nigeria:

“As an Islamic finance bank, we need to harmonise specific shariah standards because no standard is harmonised for now. What I am doing and how I am doing at AMFB is quite different from other IFIs in Nigeria.”

Additionally, BS3 said when asked if there is any standard:

“For now, I cannot think of one, and I know in their new guideline that they mention we can adopt, but for now, to have a harmonise one like Islamic financial is not possible, but adoption is allowed.”

To consistently implement the shariah principle and avoid contradictions, the CBN's Islamic Finance Unit needs to draft its own Shariah Standards referencing other international standards such as AAOIFI, IFSB, BNM, Fiqh Academy, and Others through the guidance of Shariah experts in the unit.

Awareness and Misconception

Lack of Islamic Financial Literacy (IFL) continues to be a severe concern to the global Islamic financial industries, particularly in Africa, where the average Muslim cannot distinguish between the Islamic and conventional banking systems. Unfortunately, Islamic banking, its operations, products, and criteria are still in their infancy in

Nigeria. Consumer awareness “is a process of knowledge, persuasion, decision, and confirmation before consumers are ready to use a product or service.” (M. Saad, 2012). This means that for customers to efficiently and effectively accept and use a product, they should acquire knowledge about its existence, how it functions, and the purpose it serves for them in the end.

Bello & Abubakar (2014) and Dogarawa & Uthman (2019) describe awareness as one of the significant challenges of Islamic finance in Nigeria. Similarly, all the informants commented on the awareness issues as a big challenge, making awareness a general theme. BS1 gave the following statement:

“one of the challenges we are facing as an Islamic bank in Nigeria is what we call the wrong perception; as you said earlier, there is no awareness to people by the government, and coming down to the Islamic organisations and community and it a problem. Without the perception about IBF in Nigeria, there is no way we can grow, so perception is a big problem. So we all have to come together and continue creating awareness; maybe the government too can have orientation and advocating awareness.”

BS3 did express some views on AMFB’s obligation and responsibility to address the poor level of understanding about the Islamic banking system among Muslims and non-Muslims in Ijebu Ode:

“It is our duty is not only to finance but also, we need to educate people. We cannot progress until we have the means, capability, and ability to educate these people, and now we have more Christian

patronising us than the Muslims, but once we have the power and ability to educate people about what we are doing and this is the benefit, people will patronise us.”

Additionally, SH2 said:

“I’m telling you that there are numbers Muslims that are a customer of the microfinance bank (AMFB) that still could not differentiate between Islamic banking and conventional banking that is why we are saying there is a knowledge gap., many people cannot see the difference to the extent that some people have that hatred and bias covered their judgment about how ut bank works. So knowledge gap is one of the reasons.”

Lastly, BS2 stated some steps and measures AMFB has taken to deal with the Awareness hindrances. First, AMBF is reaching out to Islamic spiritual leaders, scholars and Imams, explaining to them how they can use various organisations and congregations to promote Islamic financial literacy:

“There are many steps. We had several excellent discussions with the imams in Ogun state that we are well known to use their various mediums to promote us. Firstly, we are developing a perfect relationship with Ijebu Ode residence and Ogun state in general. Once the CBN issues our Islamic license. Secondly is for us to educate or reorientate the scholars about the Islamic banks.”

Several misconceptions erupt in the effort to develop Islamic Finance in Nigeria. First, some non-Muslims believe Islamic finance is only meant for Muslims Islamic finance is a method of earning money through wealth creation and distribution that is open to Muslims and non-Muslims alike. Second, non-Muslims are not restricted from using

Islamic Financial services or from running an Islamic Financial institution. While Islamic Finance was founded on Islamic law principles, its distinguishing characteristic is its commitment to social justice for everyone, which appeals to both Muslims and non-Muslims. Non-Muslims are not restricted from using Islamic Financial services or from running an Islamic Financial institution. While Islamic Finance was founded on Islamic law principles, its distinguishing characteristic is its commitment to social justice for everyone, which appeals to both Muslims and non-Muslims. SH2 quoted:

“Another one is faith-based bias, whatever you call Islam some people will never go there, once they have a little trace back to an Islamic organisation some customer will never go there because they have islamophobia and it a problem today.”

On the contrary, several multinational conventional banking groups such as Citigroup, HSBC, Standard Chartered, and BNP Paribas are among the most prominent institutions offering Islamic financial services. This demonstrates that Islamic Finance's values are not restricted to Muslims alone. Furthermore, In Nigeria, some existing conventional banks, such as Sterling Bank and Stanbic IBTC, have an Islamic banking window that establishes a staggering number of non-Muslim investors who benefit from Islamic Finance services these banks offer, primarily due to the attractive returns.

SH1 mentioned his concern over numerous customer's delusions about AMFB as a charitable Institution:

“Another point is the misconception about Islamic banking generally. Many people think that you are going there for a free fund

when you go to an Islamic bank. They don't intend to repay back, and these are the major problem we are facing internally.”

Islamic finance is about accumulating money and, like any other business, it is profit-driven. Islamic Financial Institutions are responsible to their shareholders and investors who have put their money in the company with the expectation of receiving a decent return on their investment, which the institution must deliver following Shariah principles. However, as stated previously, Islamic Finance is not a capitalist-driven financial system. In Islam, there are built-in mechanisms to encourage Islamic Financial Institutions to engage in corporate social responsibility, such as the obligatory Zakat, Waqf, and voluntary Sadaqah (donations) that can be utilised to help with societal development.

Convenient Accessibility to the Unbanked Community

According to the Enhancing Financial Innovation & Access (EFInA) report on financial exclusion in Nigeria, In the year 2020, only 67.5 million (64%) of the 105.5 million adult population were financially included (EFInA, 2021). According to the report, 36% of Nigerian adults, or 38 million adults, will remain financially excluded by the end of 2020. While financial inclusion has increased over the last decade, Nigeria has fallen short of the 2020 targets set out in the National Financial Inclusion Strategy. By 2020, the country is expected to provide formal financial services to 70% of Nigerians; however, the actual figure was 51% (Adeleke & Alabede, 2021).

The emergence of digital financial services and agent banking revealed prospects to accelerate progress toward financial inclusion, particularly for excluded populations such as women, rural Nigerians,

and Northern Nigerians. As a result, the CBN has been at the forefront of efforts to promote financial inclusion in Nigeria, spearheading the establishment and execution of the country's National Financial Inclusion Strategy under the leadership of the CBN Governor, such as the establishment of E-Naira to include millions of unbanked individuals.

AMFB embarked on several missions to extend credit facilities and increase Islamic banks' awareness of the rural area and beyond to tackle the financial exclusion in Ijebu-Ode and Ogun State. However, various hurdles have delayed these expeditions, such as inadequate roads, internet connection, stable electricity and infrastructure. One of the stakeholders (SH2) said:

“Another point is accessibility. Those that need this Islamic banking are in the rural area, and they have no access to this opportunity. Ijebu ode is the head of Ijebu land, but many people are in rural areas and do not know about the Al-Hayat microfinance system in Ijebu ode.”

Additionally, a marketing officer (BS3) identified many impediments, thwarting the marketing board of AMFB's efforts to expand several products to rural areas where they were most needed:

“you see, it is only little we can do because the government has not done their own part, infrastructure. In terms of infrastructure, there is no good road to these rural areas, even when you want to go you can't go due to bad roads, and lack of electricity, another problem is that our own microfinance bank is just a unit microfinance bank, we

cannot go out of one local government to another except they travel down here, although we are making use of e-banking.”

AMFB is a unit microfinance bank with a single branch, as defined by the bank’s license and share capital. The marketing team will need to visit these rural communities and convince residents to bank with AMFB, as the bank is not permitted to operate additional branches until it obtains a state-level license. BS2 referred to the bank’s efforts to overcome those obstacles:

“The first step is what we call public sensitisation. The bank collaborates with some other institutions around Ijebu Ode to somehow sensitise the public based on product characteristics.”

AMFB is reaching out to those unbanked customers in the rural area through collaboration with the Al-Hayat foundation and some informal cooperation in those areas..

CONCLUSION

After an in-depth review of the literature, this research aims at filling the gap that impedes the success of Islamic microfinance in Nigeria. Despite establishing several conventional microfinance banks that support the government’s poverty alleviation efforts in the country. However, the core objective of poverty eradication remains unachieved. These challenges become acute in Muslim countries and communities due to Islam’s prohibition on taking and giving interest-bearing loans, Garar and Maysir. Alternatively, Islamic and conventional microfinance were merged to reduce poverty in Nigeria. As a result, this study examined the barriers to financial inclusion faced by Islamic microfinance institutions in Nigeria. Promote various feasible solutions

and adjustments to the current problems of Islamic microfinance. The Islamic microfinance model has the dual advantage of fulfilling the economic needs of the vulnerable while satisfying the religious requirements in complying with sharia principles of finance. However, the findings indicated that the regulatory framework (i.e., Islamic operating license), lack of awareness, and misconceptions about Islamic finance institutions impede microfinance banks' financial inclusion in Nigeria. Similarly, Islamic microfinance faces operational issues related to Share capital, adequate Islamic financial technology for retail services, convenient access for the unbanked, and human capital.

Therefore, regulators and policymakers must strive to amend the Nigerian banking guidelines and regulatory structure to sustainably improve the financial inclusion of Islamic microfinance banks in Nigeria. Nonetheless, Nigeria's Islamic banking industry will not be able to compete with traditional banks unless the regulatory structure is amended to incorporate Islamic financing into the Nigerian landscape.

Furthermore, some of the findings of this study corroborate those of previous studies (Dogarawa & Uthman, 2019; Enyia & Inyang, 2018; Md Saad, 2012), indicating that lack of awareness, poor understanding, and misconceptions about Islamic Financial Institutions (IFIs) continue to be significant impediments to the success of the Islamic banking system in Nigeria. Misconceptions include the assumption that Islamic finance is exclusively for Muslims, that Islamic banks are charity organisations, and that Islamic banking operations are one of several steps toward the Islamization of Nigeria. Al-Hayat Microfinance Bank (AMFB) has embarked on missions to extend credit

facilities and increase Islamic banks' awareness of the rural area and beyond to tackle the financial exclusion in Ijebu-Ode and Ogun State. However, various hurdles have delayed these expeditions, such as inadequate roads, internet connection, stable electricity and infrastructure. In addition, AMFB is a unit microfinance bank with a single branch, as defined by the bank's license and share capital. Therefore, the marketing team will need to visit these rural communities and convince residents to bank with AMFB, as the bank is not permitted to operate additional branches until it obtains a state-level license.

Finally, The Muslim community in Nigeria is sizable, and their requirement for Islamic retail banking products to support their religious obligations is critical. Therefore, the Nigerian government is the first entity that has to take action to satisfy the needs of its citizens. Additionally, the Nigerian government can learn from other countries such as Malaysia, Turkey, the United Arab Emirates, and Indonesia, which have successfully implemented Islamic banking and finance, Islamic social finance, and Takaful as tools for addressing and reducing financial exclusion in their respective countries.

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