Proposing a Novel Credit-Plus Model to Utilise Islamic Social Finance Instruments for Islamic Microfinance Programmes and To Enhance Financial Inclusion in Nigeria

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ABSTRACT

More than 800 microfinance banks currently operate to drive the government's poverty reduction initiatives in Nigeria. However, the primary goal of eradicating poverty remains unachieved. Additionally, the current Islamic microfinance frameworks are unable to improve the general socioeconomic circumstances of the nation's impoverished. To improve the rate of financial inclusion in Nigeria, this study investigates the potential of Islamic microfinance to support the impoverished in a society that values respect and dignity. In particular, the objective of this research is to develop a novel Credit-Plus model to critically examine Islamic Microfinance strategies to utilise Islamic Social Finance instruments for sustainable financial inclusion in Nigeria. It uses a qualitative approach, gathering information from both primary and secondary sources. 16 Islamic finance experts who hold prominent positions in different Islamic social finance institutions, Islamic microfinance organisations, and regulatory bodies in Nigeria were also asked to provide their expert comments using a typical open-ended semi-structured questionnaire. In this study, a Credit-Plus model is proposed based on a synergistic interaction between Islamic social finance organisations and Islamic microfinance institutions, considering Nigerian perspectives. The results show that, if properly implemented, this new model can greatly benefit Nigeria's impoverished population by increasing the rate of financial inclusion. If the recommendations and strategies outlined in this study are effectively put into practice, they could lead to significant progress in reducing poverty. Essentially, the successful integration of Islamic microfinance and Islamic Social Finance into Nigeria's financial landscape could pave the way for a more inclusive and prosperous future, as it not only addresses immediate economic needs but also promotes long-term growth and stability.

INTRODUCTION

According to the World Bank (2025), a staggering 831 million people worldwide lack access to formal financial services, including bank accounts, credit, insurance, savings, and a quick and efficient way to receive social benefits payments through a licensed financial institution. Although this issue is global, an average adult in a developing nation is most frequently financially excluded.

In 2022, Nigeria was home to approximately 3% of the global population living in extreme poverty, defined as those living below the poverty threshold of $ 1.90 per day (Global Multidimensional Poverty Index - MPI - 2023). Additionally, the Democratic Republic of the Congo constituted approximately 10% of the worldwide population living in conditions of extreme poverty. Tanzania, Madagascar, and Mozambique are among the African nations with a significantly impoverished population. It is estimated that by 2030, half of the world's population living in severe poverty will reside in Sub-Saharan Africa's fragile states, with a quarter of them concentrated in Nigeria and the Democratic Republic of Congo alone (World Bank, 2025).

Again, microfinance is an effective method in combating poverty, as it provides access to financial resources that can aid in poverty reduction by promoting financial engagement and empowerment. Therefore, microfinance is considered a worthy circle for breaking the poverty chain (Beck, 2015). As of 2019, over 800 microfinance banks operate to drive the government's poverty reduction initiatives in Nigeria (Abdullahi and Othman, 2021). However, the primary goal of eradicating poverty remains unachieved.

Nevertheless, extant literature has projected Islamic microfinance banks and Institutions as a feasible alternative solution to alleviate poverty in Nigeria. However, some factors still delay the development of Islamic microfinance banks from expanding all over Nigeria, such as funding, Fintech, awareness and more (Haruna and Ayuba, 2015; Salaudeen and Zakariyah, 2022). On the other hand, Islamic Social finance also embarked on the financial inclusion mission through Islamic poverty alleviation schemes such as Zakat, Waqf, and Qard Hassan (Ahmad, 2019).

Subsequently, several challenges still hinder Islamic Social Finance (ISF) from achieving notable financial inclusion in Nigeria. Saad and Farouk (2019) note that zakat and waqf institutions in Nigeria have not attained their inherent Sharīʿah objectives because public members have little or no trust or confidence in them. Additionally, potential zakat payers and waqf donors dislike the involvement of political office holders in appointing the administrators of these institutions. Finally, the administrators lack adequate managerial and administrative knowledge of the two institutions.

Consequently, rather than struggling alone, this research proposes a unique synergistic approach, combining Islamic Microfinance (IMF) and Islamic Social Finance (ISF) resources to enhance financial outreach in Nigeria. To increase financial inclusion, a new Credit-Plus concept is proposed, offering a comprehensive Islamic Microfinance product with Islamic Social Finance backing.

METHODOLOGY

This study employs an inductive approach to investigate the proposed synergistic concept through the collection of empirical qualitative data. This study also employs a qualitative research method. Using semi-structured interviews, this study prioritises this approach to exploring the role of Islamic social finance in strengthening Islamic microfinance institutions in Nigeria from the perspectives of institution administrators and board members.

In this study, information was gathered through semi-structured interviews, which are very helpful when qualitative data is needed. Interviews can be used to discuss a wide range of topics, from general to specialised to extremely delicate ones, when done well prepared. They can be conducted once or repeatedly over time to monitor changes. The interviewer is well-positioned to assess the calibre of the responses, identify any misinterpretation of a question, and encourage the respondent to provide as much detail as possible in their answers.

The research participants in this study were managers and board members of Islamic MF, Zakat, and Waqf institutions, aiming to explore collaboration possibilities from the institutions' perspectives. Initially, a pilot study was conducted with six respondents, two from each type of institution. The interviews were carried out using semi-structured interview questions. After gaining insights from these respondents, the main study collected data from five respondents from Islamic Microfinance Institutions, nine respondents from Islamic Social Finance Institutions, and two Microfinance Regulators from the Central Bank of Nigeria, totalling 16 participants. The research interviewees were chosen using a purposive sampling approach. After data collection, the thematic analysis was conducted, through coding and content analysis, to examine the qualitative data collected from the interviews. Atlas.ti platform was used for this purpose.

RESULTS AND DISCUSSION

Role of Zakat and Waqf Institutions in Enhancing Financial Inclusion

Philanthropic tools, particularly Islamic social finance (ISF) components such as zakat and waqf, offer a novel approach to enhancing financial inclusion. Leveraging Islamic finance's potential through the development of innovative ISF products can boost financial inclusion and strengthen the stability of the financial sector, ultimately enhancing Islamic finance's contribution to the United Nations Sustainable Development Goals

(SDGs) (Laldin et al., 2021). Mikail et al. (2024) argued that to help governments meet their objectives related to financial inclusion, the private sector and charitable organisations such as Waqf and Zakat institutions can play a vital role.

A waqf-based institution called the Al Qarawiyyin, also known as Al Karaouine, was founded in Fez, Morocco, in 859 by Fatima Al Fihri, the daughter of Mohammed Al Fihri, a prosperous Moroccan trader (Mikail et al., 2024). The compound was renamed Al Qarawiyyin Mosque and University after her sister built a mosque nearby.

It was eventually incorporated into Morocco's modern state university in 1963. The citadel of knowledge has produced illustrious students, including the Dutch mathematician and orientalist Jacobus Golius, the renowned Muslim historian Ibn Khaldun, the Muslim philosopher Averroes, the geographer Muhammad Al-Idrisi, and several other notable personalities (Mikail et al., 2024). Therefore, organisations founded on zakat and waqf can help promote education and ultimately enhance financial inclusion.

The respondents in this study were asked, “How do you think Zakat/Waqf have impacted financial inclusion in your community?" Several current roles of Zakat and Waqf institutions in successfully improving the rate of financial inclusion in Nigeria have emerged from the results of the interviews conducted using structured, open-ended questions.

After analysing the responses of the respondents using the ATLAS.ti platform, the following themes have been generated based on the codes regarding how zakat and waqf can help improve financial inclusion.

Economic Empowerment

Zakat: Provides seed capital and training in business management, thereby enhancing the economic capabilities of individuals.

Waqf: Supports the poor and promotes economic inclusion, allowing them to engage with financial systems.

Financial Accessibility

Zakat: Encourages recipients to open bank accounts, thereby facilitating access to formal financial services.

Waqf: Offers financial support without the prerequisite of a bank account, thereby broadening access to financial resources.

Education and Skill Development

Zakat: Funds educational initiatives that enhance skills and employability, thereby indirectly promoting financial inclusion.

Waqf: Can also support educational programs, contributing to the development of a financially literate population.

Collaboration with Financial Institutions

Zakat and Waqf: Promotes partnerships between zakat and waqf institutions and financial entities to enhance financial inclusion efforts.

Role of Zakat and Waqf in Supporting Islamic Microfinance Activities

The needs of impoverished households in various communities can be addressed through zakat and waqf-based credit facilities provided by different Islamic microfinance institutions, according to several literary sources. Mikail et al. (2024) recommended establishing microfinance organisations founded on zakat, awqāf, and ṣadaqat. They suggested that profitable microbusinesses could be financed at reduced rates using funds from awqāf and ṣadaqat. This aims to balance the sustainability and profitability requirements of Islamic Microfinance

Institutions (MFIs), as Wang and Ran (2019) highlighted in the case of Rishenglong Ltd. (RSL), an MFI based in Pingyao, Shanxi.

A cash waqf model was proposed by Cizakca (2004) to achieve social goals within society, such as providing cash waqf-based microfinance to impoverished households. The role of cash waqf as a novel financial model in the Islamic financial system was also examined and assessed by Lahsasna (2010). He found that financial services for micro, small, and medium-sized businesses (MSMEs) could be developed and enhanced through the use of the cash waqf model. According to him, cash waqf is a crucial tool for funding MSMEs and is regarded as an effective method of raising funds.

In addition to having Shariah-compliant frameworks, the Waqf and Zakat mechanisms are considered in Islamic microfinance because they represent the original Islamic concepts that support the underprivileged and those in need. It is believed that Zakah and Waqf, when combined with microfinance, are the most effective ways to assist those in need of financial support and could ultimately help reduce poverty.

The idea behind the Zakat-and-Waqf-based approach is that resources are allocated as Zakat and Waqf and must be properly utilised for those in need. Islamic MFIs founded on zakat and waqf are financed by these endowment funds and have significantly lower operational costs than traditional MFIs. Since they are donations, no returns are expected.

Although Islamic MFIs do offer returns on deposits and beneficiary savings, the Zakat and Waqf funds help reduce expenses and boost the MFIs' profitability. Furthermore, Qard al-Hasan (benevolent loan) should serve as the foundational financing method for those living in extreme poverty who do not expect a return on their loans.

The respondents in this study were asked, “How can Islamic social finance instruments like Zakat and Waqf be useful for supporting Islamic microfinance programmes?" A number of themes are derived from the respondents’ viewpoints. For instance, zakat and waqf can be used for –

1. Maximising the benefits of Zakat and Waqf by increasing the economic status of the Asnaf.
2. Minimising the amount of Zakat and cash waqf that is underutilised.
3. Providing entrepreneurs and small businesses with the necessary capital to grow and thrive so that they can contribute to the local economy.
4. Using Zakat and Waqf funds to create sustainable financing models that support multiple microfinance projects over time.
5. Investing Zakat and Waqf resources in training programmes and also for increasing financial literacy and business skills among the microfinance recipients, ultimately empowering them to become self-sufficient and improve their economic well-being.

Collaboration Between Islamic Microfinance Institutions and Islamic Social Finance Organisations

As suggested by Jouti (2019), adopting an integrated approach that involves all stakeholders and coordinates initiatives in alignment with a predefined strategic vision is highly advisable to achieve genuine and measurable results. Addressing each social issue requires bringing all stakeholders together under a relevant strategic vision within a single project that has a development lifecycle with multiple stages, each requiring appropriate funding and support.

This approach engages fund providers whose interests align with the project's objectives. According to Jouti (2019), collaboration among Islamic social finance institutions can be facilitated through three steps, as illustrated in Figure 1:

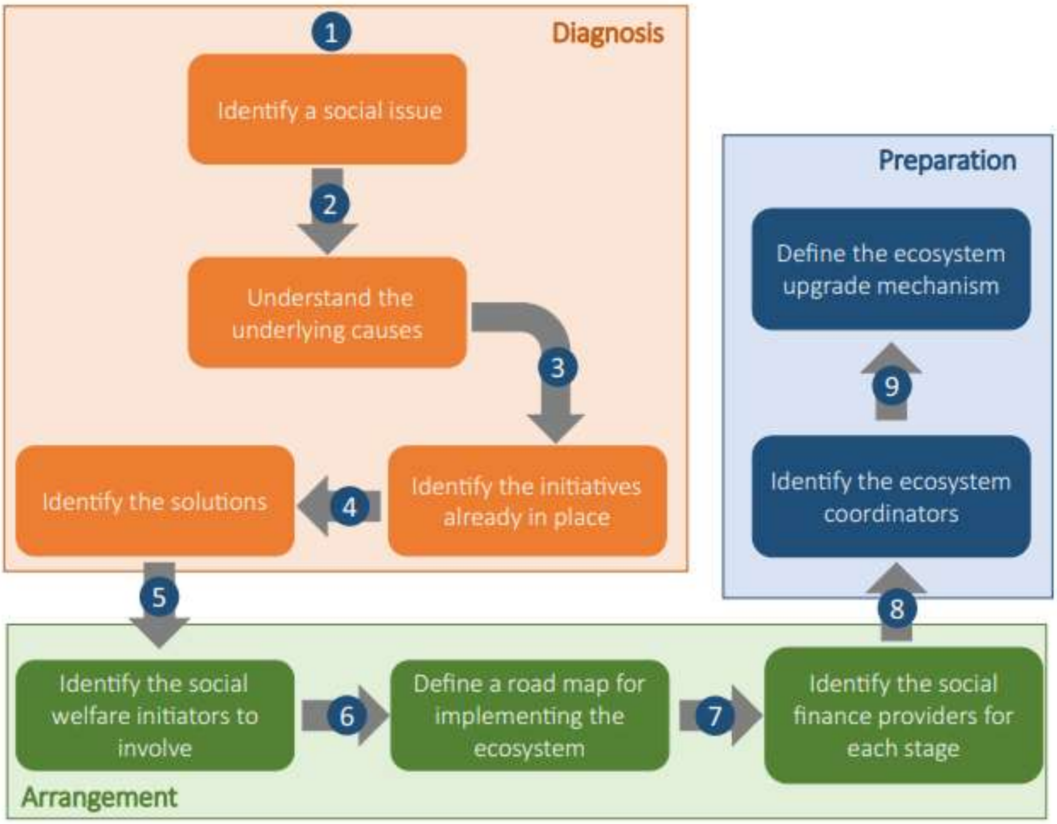

Figure 1: Ways of Collaboration among Islamic Social Finance Institutions. Source: Jouti (2019, p. 260)

Identifying a societal issue, understanding its causes and details, being aware of all efforts to address it, and then devising solutions based on the latest advancements and global experiences form the first stage. The second phase involves finding social welfare initiators who can contribute to the ecosystem as a whole and to the solutions. Next, the ecosystem's requirements and various implementation processes need to be considered to determine which Islamic social finance providers are best suited for each step and how to optimally combine different funding sources. Creating an ecosystem implementation strategy, identifying the ecosystem coordinators, and establishing the ecosystem upgrading mechanism make up the final step (Jouti, 2019).

As highlighted by Mikail et al. (2024), the provision of both financial and non-financial services requires the institutional cooperation of Islamic MFIs (IMFIs) and waqf institutions. To combat poverty and promote socioeconomic development, such collaboration creates a synergistic strategy that can take the following forms:

1. The implementation of Islamic microfinance projects can be indirectly funded by employing waqf assets, such as waqf property (such as buildings or land), or by channelling the profits from waqf asset investments into microfinance programs.

2. Cash waqf and waqf investments in Islamic MFIs are used to directly fund Islamic MFIs.

3. Public-private collaborations between IMFIs and waqf institutions to develop blended financial solutions, as well as community-based projects that aim to create customised financial products tailored to the specific needs of particular communities.

4. Waqf-based qarḍ-al-ḥasan, which seeks to give qarḍ-al-ḥasan to microentrepreneurs, small business owners, and productive waqf recipients. Waqf funds can also be utilised to lower the cost of microloans, lowering the barrier to entry for those with low incomes.

5. The micro-takāful initiative aims to establish micro-takāful institutions that provide takāful coverage to low-income households by utilising waqf funds.

6. Leveraging technological options that seek to create digital platforms that combine microfinance services and waqf funding, tracking Islamic microfinance transactions and waqf monies using blockchain technology to ensure accountability, transparency, and efficient payout.
7. Hybrid waqf-MFI entity, which seeks to create a microfinance and waqf institution that serves both missions under one roof.
8. Education and capacity building, which aims to provide training and capacity-building programs for current and potential waqf administrators and microfinance professionals. Moreover, running awareness initiatives to inform the public about the advantages of integrating microfinance and waqf.

The respondents of this study were asked "How often their organisation collaborate with Islamic microfinance institutions and what the main benefits of this collaboration are for both parties." A number of themes are derived from the opinions of the respondents. For instance, the ISF organisations can collaborate with Islamic microfinance institutions by –

1. Acting as an umbrella organisation can help other microfinance organisations when they need it most
2. By encouraging the microfinance organisations to follow the best practices in the industry
3. Empowering more people through this sort of collaboration.
4. Promoting a very good system of managing or distributing waqf and zakat funds.
5. Training microfinance organisations to enhance their performance.
6. Offering opportunities to share resources.
7. Enhancing the impact of both organisations
8. Increasing the credibility of both Zakat and Waqf and microfinance organisations
9. Helping the microfinance institutions facing challenges like limited access to funding, inadequate infrastructure, and a lack of skilled personnel
10. Assisting areas like financial inclusion and entrepreneurship development through collaboration

The Proposed Islamic Microfinance Credit-Plus Model Based on Islamic Social Finance

To enhance Islamic microfinance capacities through integration with other Islamic Social Finance resources, this study proposes a Credit-Plus model based on synergistic interaction. As outlined, microfinance programmes can be strengthened by utilising Islamic social finance (ISF) tools such as zakat, waqf, and infaaq as a consistent funding source.

The concept of integrating Islamic social finance tools with Islamic microfinance aims to tackle resource mobilisation challenges. Funds from internal sources, such as deposits and undistributed zakat, can be pooled by microfinance. However, since most microfinance clients are vulnerable, this may not be sufficient. Islamic microfinance might secure alternative funding from government organisations, but they frequently impose terms and restrictions that conflict with Islamic principles. For instance, interest payments are often used to fund government projects. Thus, an Islamic microfinance programme cannot be established if the funds originate from illegal (haram) sources. Therefore, if the source of funds is not lawful (halal), implementing an Islamic microfinance scheme becomes unfeasible. Consequently, a combined model that is both appropriate and sustainable must be devised to address these issues and significantly reduce poverty. This study proposes an Islamic microfinance model based on Islamic social finance to meet the needs of low-income Muslim borrowers.

According to the proposed system, zakat and waqf funds will be collected for the underprivileged either as default bailouts (to gharimin) or charitable loans (qard-al-hasan). The funds raised will be distributed to the impoverished as equity, through crowdfunding-waqf, or as a cash waqf. Additionally, the infaaq portions will be accumulated through donations of pre-owned properties, cash, or Sadaqah. The synergistic approach of sustainable financial inclusion and Islamic microfinance will be integrated within the credit-plus model. Figure 2 illustrates the model proposed in this study.

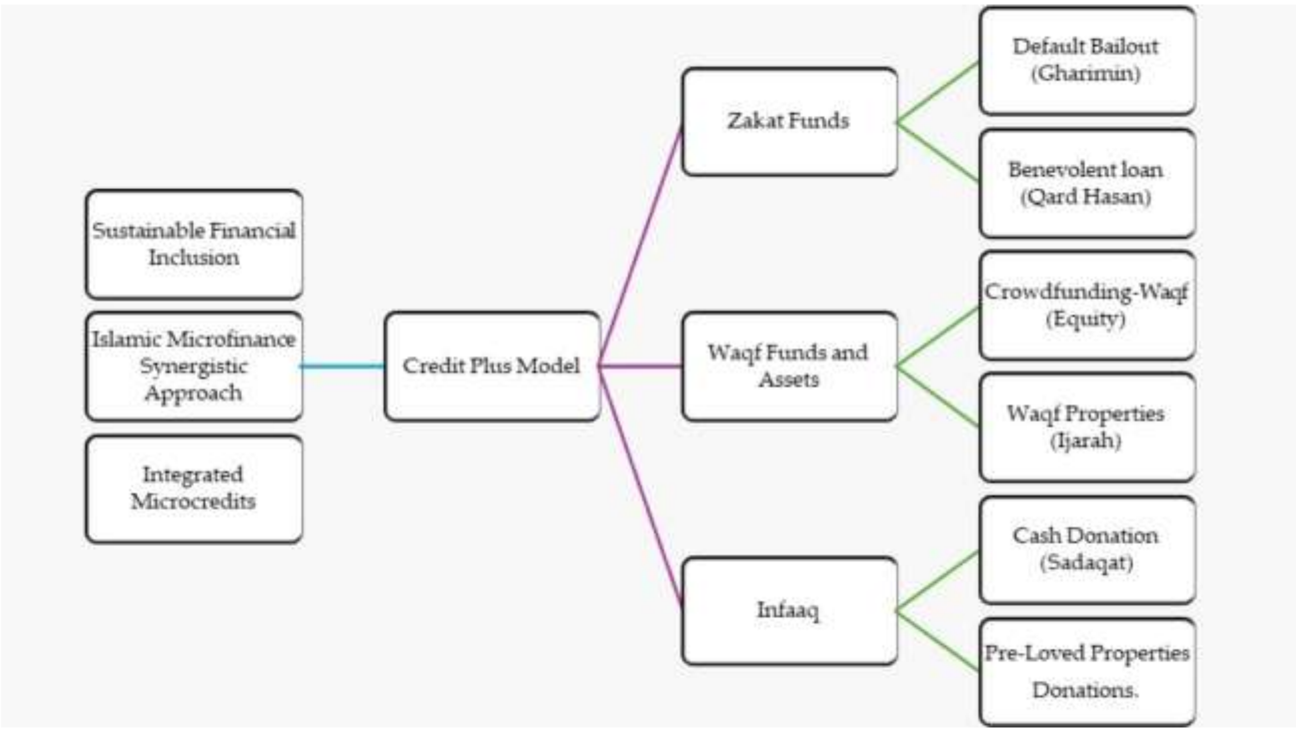

Figure 2: The Credit-Plus Model Proposed in this Study

Thus, integrating zakat, waqf, and infaaq into a single structure to meet the funding needs of Islamic MFIs will create investment opportunities for marginalised segments of society and motivate their participation in investment activities. This can boost economic growth and aid in poverty eradication. Conversely, in the proposed model, governments, NGOs, wealthy Muslims, and individuals motivated by philanthropy will fund Islamic MFIs through Islamic social finance instruments. These MFIs will invest the funds in secured portfolios, and the returns will be used to finance the unbanked population via applicable Shariah contracts and concepts. Therefore, the proposed model has the potential to address the liability challenges faced by Islamic MFIs. It will improve their financial sustainability by providing a substantial source of funds, which remains a significant challenge for all Islamic MFIs.

The development of this model extensively utilises Igor Ansoff's (1965) Synergistic Effect Concept. The word synergy, which translates to "combined action," originates from the Greek word "synergos," meaning cooperating. Ansoff defines synergy as “a measure of collaborative effects, when the income from the joint utilisation of resources exceeds the sum of incomes from utilising the same resources separately” (Radeva, 2014, p.4).

According to Igor Ansoff, synergies give diverse organisations a competitive edge by combining and transferring skills and resources. Moreover, sources of competitive advantage include synergies created through the combination of resources and competencies. Synergy creation, according to Ansoff, is more likely to occur at various organisational levels. This could imply, for instance, that synergies form across business units or specific activities rather than from existing firms (Raluca, 2011). Synergy, according to Ansoff, is 2 + 2 = 5. He argues that the whole is greater than the sum of its parts. The idea involves assessing how opportunities might align with the company's core capabilities (Raluca, 2011).

Nevertheless, several studies have shown that, in appropriate circumstances-such as when combined with an industry where synergy is crucial-synergy enhances performance (Iversen, 1997). Potential synergies can be realised at various organisational levels through cost reduction and revenue increase. However, synergies may be minimal or even harmful if the plan is poorly implemented.

Furthermore, when operations are connected across multiple dimensions, such as the physical resources and expertise of related organisations, the probability of achieving synergy increases (Damodaran, 2005). Regarding the expected collaboration between Islamic Microfinance (IMF) institutions and Islamic Social Finance (ISF) organisations, both have the same aim of enhancing financial inclusion and supporting low-income and impoverished individuals.

Implementing the Credit-Plus Model

By effectively utilising Igor Ansoff's Synergistic Effect Concept in the Credit-Plus model, it can be implemented with success, specifically considering Nigerian perspectives. The traditional microcredit approaches adopted by Islamic microfinance institutions in this country can be enhanced by integrating Islamic social finance tools, like zakat, sadaqah, infaaq, etc. This method will provide the necessary financial support to the Islamic microfinance organisations, as well as address the variety of needs of the distressed people in Nigeria.

Considering these perspectives, the credit-plus model can be efficiently implemented in Nigeria following the steps mentioned here:

1. The first step should be to create a central body for overseeing the collaboration between the IMF institutions and ISF organisations. This body will also monitor the collection and distribution of zakat, waqf, and infaaq money for Islamic microfinance programmes.

2. The second step will be to emphasise designing new integrated financial products, like investments based on cash-waqf, microcredits using the Qard-al-Hasan approach, debt relief through zakat fund, etc.

3. The third step will be to adopt a structured approach for benefitting beneficiaries. This may include using the zaqat or cash waqf funds to help the poor microloan recipients when they are in extreme emergencies and unable to repay the loan to the microfinance institutions. Zakat and Waqf-based institutions can also offer training programmes to improve the capabilities of the poor people, as well as IMFI staff.

4. The fourth step will be to make sure that technology is being used appropriately in the Islamic microfinance programmes so that transparency and accountability can be ensured.

5. Finally, the ISF organisations and IMF institutions should raise their voice together so that the government start feeling the need to develop the necessary legal framework for managing the collaboration among these institutions.

CONCLUSION

Over the past three decades, several policies and initiatives have been implemented to reduce poverty, yet millions of Nigerians still live in severe poverty. The study's findings indicate that Islamic microfinance can assist the impoverished in Nigeria to improve their overall socioeconomic status and live with dignity in society. If the implementation of the proposed Credit-Plus model can be ensured, there is a strong possibility that Nigeria's unproductive population will no longer be a burden on society and will instead be able to make significant contributions to themselves, the community, and the nation as a whole.

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