



The Role of Islamic Social Finance in Strengthening Islamic Microfinance Institutions for Poverty Alleviation in Nigeria: A Synergistic Conceptual Framework

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Abstract

Microfinance is an effective method for combating poverty. It offers access to financial resources to reduce poverty by promoting financial engagement and empowerment. Therefore, microfinance is considered a worthy circle for breaking the poverty chain. As of 2022, over 800 microfinance banks operate to drive the government's poverty reduction initiatives in Nigeria. However, the primary goal of poverty eradication has yet to be achieved. This research aims to propose a novel synergistic scheme that empowers existing Islamic microfinance through Islamic social finance resources, such as Zakat, Waqf, and Sadaqat, to increase financial outreach in Nigeria through the new Credit-Plus concept. It includes a comprehensive Shariah-compliant product, integrating multiple Islamic Microfinance and Islamic Social Finance products, such as Microcredit, Microdeposit, zakat funds, and waqf properties, along with entrepreneurship training, into one effective poverty intervention scheme. This study applies Igor Ansoff's synergy theory to develop a synergistic conceptual framework for identifying commonalities and assessing the need for collaboration between Islamic Social Finance and Islamic Microfinance in Nigeria, with the aim of working together to alleviate poverty in the country. It is expected that if this model is appropriately implemented, it could be a milestone in effectively reducing the poverty rate in Nigeria and ultimately bringing prosperity and upliftment to the country's impoverished populations.

Keywords: Islamic Microfinance, Islamic Social Finance, Nigeria, Credit-Plus Concept.

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1. Introduction

According to the [National Bureau of Statistics \(2023\)](#), over 133 million Nigerians—representing approximately 63% of the population—are classified as multidimensionally poor. This staggering figure underscores the severity of poverty in the country and highlights the urgent need for inclusive financial solutions. Microfinance is an effective method in combating poverty, as it provides access to financial resources that can aid poverty reduction by promoting financial engagement and empowerment. However, the [National Bureau of Statistics \(2023\)](#) statistics show that Nigeria's microfinance institutions support fewer than one million out of 40 million potential borrowers. Furthermore, microcredit facilities in Nigeria account for just 0.2% of the GDP and less than 1% of total credit to the economy. Therefore, an ineffective solution to resolve the situation will exacerbate poverty while slowing growth and development, according to the [NBS \(2023\)](#). As of 2019, over 800 microfinance banks operate to drive the government's poverty reduction initiatives in Nigeria ([National Bureau](#)

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Article history 

Received: 24 June 2025

Accepted: 15 September 2025

of Statistics, 2020). However, the primary goal of poverty eradication has yet to be achieved. Alternatively, the existing literature has identified Islamic microfinance banks and institutions as a feasible solution to alleviate poverty in Nigeria.

Nevertheless, some factors still hinder the development of Islamic microfinance banks in Nigeria. [Salaudeen and Zakariyah \(2022\)](#) identified several operational challenges in Islamic microfinance, including share capital (funding), lack of awareness, inadequate Islamic financial technology for retail services, limited access for the unbanked, misconceptions, and human resources, which impede financial inclusion. 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 Hasan. However, [Saad and Farouk \(2019\)](#) revealed that the fragmented implementation of the Zakat and Waqf system within the Nigerian financial system led to weak governance and outreach, as well as feeble administration and management of the two institutions. Furthermore, the absence of Zakat accounting standards and low compliance behaviour are the significant barriers that require the government's attention and other stakeholders, such as the traditional leaders, the accounting regulatory bodies, the Shari'ah scholars ('Ulamas) and the economic and accounting researchers ([Saad & Farouk, 2019](#)).

This research introduces a groundbreaking, synergistic approach to improve financial outreach in Nigeria through the implementation of the Credit-Plus concept. It enhances existing Islamic microfinance by leveraging Islamic social finance resources such as Zakat, Waqf, and Sadaqat. The initiative offers a comprehensive product that adheres to Shari'ah principles, integrating various Islamic social finance and microfinance services into a single effective programme to fight poverty, including microcredit, micro-deposit, Zakat funds, Waqf properties, and entrepreneurship training. This model applies Igor Ansoff's synergy theory to develop a synergistic framework for identifying shared features and evaluating the necessity of collaboration between Islamic Social Finance and Islamic Microfinance in Nigeria, with the aim of working together to reduce poverty in the country.

This study has made a significant contribution by opening up a new academic path for researching financial inclusion in Nigeria, particularly the Islamic poverty alleviation scheme. Moreover, this research has made a valuable empirical contribution to academia by investigating the complementary relationships between Islamic economic institutions, such as Islamic social finance and Islamic microfinance, their inclusive products and services, and how they can effectively utilise resources to alleviate poverty sustainably. Additionally, this study has offered existing Islamic microfinance institutions and Islamic social finance organisations a practical solution to tackle their internal challenges and maximise their financial and social impact with limited resources. The research structure comprises an introduction, literature review, theoretical and conceptual framework, Credit-Plus concept, findings, recommendations, and conclusion.

2. Literature Review

In 2022, Nigeria was home to approximately 12% of the global population living in extreme poverty, defined as those living below the poverty threshold of \$ 1.90 per day ([World Bank, 2020](#)). 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 African nations with significantly impoverished populations.

Microfinance is an effective method of combating poverty because it offers 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 in Nigeria, supporting the government's poverty reduction initiatives ([Abdullahi & Othman, 2021](#)). However, the primary goal of poverty eradication has yet to be achieved. Nevertheless, the existing literature has identified Islamic microfinance banks and institutions as a feasible solution to alleviate poverty in Nigeria. However, some factors still hinder the expansion of Islamic microfinance banks across Nigeria, including funding, fintech, awareness, and others. ([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 Hasan ([Ahmad, 2019](#)).

In Nigeria, implementing Islamic microfinance is a matter of equity and social justice, according to [Al-Ameen \(2016\)](#). He highlighted the need for Muslims to have access to a robust Islamic microfinance system as well as how Muslims in Nigeria were shut out of the microfinance industry when the section was founded and established. Because many low-income Muslims who require microcredit cannot take advantage of government

microcredit programmes, [Al-Ameen \(2016\)](#) explored the need for an Islamic MFB for the Nigerian Muslim population. After all, the loan conditions contradict what people hold to be true. However, operational challenges impede Islamic microfinance organisations' efforts to achieve long-term financial inclusion, as argued by [Al-Ameen \(2016\)](#).

[Gumel et al. \(2014\)](#) aimed to explore how Islamic microfinance products can help alleviate poverty in Malaysia's northern region. The study utilised borrowers of Islamic loans from a select group of microfinance institutions in the Nigerian states of Jigawa and Kano. According to the findings of this study, Islamic microfinance interventions have significantly improved children's education, asset acquisition, and household income.

According to data gathered by [Zauro et al. \(2020\)](#) from secondary sources like the Al-Qur'an, Hadiths, and other empirical studies in the literature, the combination of waqf and microfinance institutions could foster financial inclusion in Northern Nigeria, encourage economic growth, and advance the socio-economic development of Nigeria as a whole. The study suggests that, as a means of achieving socioeconomic justice in Nigeria's Muslim community, which is adversely impacted by the high rate of poverty and financial exclusion, the creation of Waqf funds to support the less fortunate through Islamic Microfinance is a viable option. However, the researcher does not clearly explain the study methodology.

Al-Hayat Relief Foundation is Nigeria's most prominent Islamic microfinance institution in six states. Al-Hayat was established to encourage the provision of interest-free loans to its registered members by using the Islamic economic system on a case-by-case basis ([Salaudeen & Zakariyah, 2022](#)). As a microfinance organisation, Al-Hayat Relief Foundation has proactively alleviated poverty among the Muslim population through several interrelated strategies ([Adepoju & Oyesanya, 2014](#)). This foundation also offers the customers training in Islamic financial literacy ([Adepoju & Oyesanya, 2014](#)). [Salako and Azeez \(2018\)](#) also employed a descriptive survey method to assess the social and economic impacts of Al-Hayat Relief Foundation's members. The instrument utilised to collect data was a self-made questionnaire. The data gathered from the survey replies were examined using a descriptive analysis. Pearson's correlation analysis was used with the SPSS 2011 version package to validate null hypotheses. According to the findings of this study, the Al-Hayat Relief Foundation significantly contributes to the economic and social well-being of the populace, and its programmes are, up to a reasonable degree, Shari'ah-compliant.

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 Shari'ah 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 officeholders in appointing the administrators of these institutions. Finally, the administrators lack adequate managerial and administrative knowledge.

[Mikail et al. \(2024\)](#) argued that the COVID-19 pandemic, which has been devastating recently, caused numerous issues for human society. Since Islamic microfinance programmes and various social enterprises aim to address social problems through entrepreneurial approaches while remaining operationally self-sufficient and sustainable, they could be utilised, like many other development initiatives, to restore the socio-economic fabric ravaged by the pandemic. Therefore, it is logical that integrating ISFs with Islamic microfinance institutions and social enterprises will enhance their performance and support economic recovery. This will inevitably lead to the empowerment of the impoverished beneficiaries of Islamic microfinance initiatives. [Haruna et al. \(2015\)](#) and [Ascarya et al. \(2023\)](#) also suggested that combining Islamic microfinance with zakat and waqf, the traditional means of aid to the poor, can foster sustainable economic growth and development.

3. Methodology

This research employed an epistemological interpretivism approach as its paradigm. Unlike positivism, which views reality as objective and measurable, interpretivism suggests that reality is subjective, socially constructed, and shaped by different perspectives. Through this lens, the researcher acknowledges their influence on the research process, as their personal experiences and previous studies inform their interpretation of observed phenomena ([Agee, 2009](#)). In contrast to this approach, previous studies—such as those by [Abubakar \(2014\)](#), [Oluyombo and Ogundimu \(2017\)](#), and [Salaudeen and Zakariyah \(2022\)](#)—have adopted positivist and realist methods to examine the potential and challenges of Islamic microfinance and Islamic social finance systems in Nigeria.

Furthermore, this research utilises Igor Ansoff's synergy theory to develop a synergistic conceptual

framework aimed at identifying commonalities and assessing the need for collaboration between Islamic social finance and Islamic microfinance in Nigeria. The goal is to work together to alleviate poverty in the country. It is anticipated that if this model is effectively implemented, it could mark a significant achievement in reducing the poverty rate in Nigeria and ultimately contribute to enhancing the welfare of its impoverished populations.

As highlighted by [Othman et al. \(2024\)](#), establishing a well-structured synergy between Islamic social finance solutions and existing Islamic microfinance programmes can boost the financing capabilities of current microfinance providers. This study proposes using Ansoff's synergy theory as the most appropriate framework. Additionally, this approach can reduce overall risks faced by Islamic microfinance institutions and foster long-term organisational innovation. By leveraging social finance tools such as zakat, infaq, and waqf, these institutions can create new, more appealing products for the market, helping potential customers break free from the cycle of poverty.

4. Theoretical and Conceptual Framework

The following theories are applied in the current study, confirming that it is grounded in established theories and concepts.

4.1 Financial Inclusion Theories

As mentioned by [Ozili \(2020\)](#), the availability and accessibility of fundamental financial services to all public members is financial inclusion. When people and businesses have access to cost-effective financial services and products that meet their requirements in an ethical and sustainable manner, they are considered financially included. The practices used for financial inclusion vary from nation to nation, so it is crucial to identify the guiding ideas or hypotheses that underlie these differences. Theories of financial inclusion provide meaning to the actions of financial inclusion. A theory of financial inclusion is required to attain a high degree of synthesis between financial inclusion outcomes and objectives. A theory or collection of theories on financial inclusion would provide a framework for understanding the goals, processes, and outcomes of financial inclusion. Furthermore, financial inclusion theories might combine the current idealistic discussions in the policy literature on financial inclusion ([Ozili, 2020](#)).

In addition to providing a foundation of principles upon which the practice of financial inclusion can be built, the theories of financial inclusion can also be used to identify unusual patterns in financial inclusion practice, thereby stimulating further investigation into the reasons behind practice deviations. Researchers in the social sciences often use one or more theories to analyse and solve problems while undertaking research motivated by specific issues ([Aburime, 2008; Ozili, 2020](#)).

This suggests that the ideas applied to explain a problem of financial inclusion may not match those used to offer viable solutions. The theoretical frameworks for identifying beneficiaries of financial inclusion and financing and implementing financial inclusion efforts may also vary ([Inoue & Hamori, 2014](#)). The good public theory, dissatisfaction theory, vulnerable group theory, systems theory, community echelon theory, public service theory, special agent theory, collaborative intervention theory, financial literacy theory, private money theory, public money theory, and the intervention fund theory are a few of the theories of financial inclusion that [Ozili \(2020\)](#) identified. This study's financial inclusion ideas presented in this study will benefit researchers, scholars, policymakers, and practitioners.

4.1.1 Public good theory of financial inclusion

According to the public good theory of financial inclusion, providing formal financial services to the entire population and guaranteeing that no one faces limitations on their access to finance should be considered a public good that benefits all individuals in the community. All individuals in the community. People cannot be prohibited from using or accessing formal financial services, as they are a public benefit. Essential financial services will be available to everyone without charge. This notion holds that everyone benefits from financial inclusion, and no one is left out. Financial services are not less accessible to others when they are accessed by one person, which implies that everyone can benefit from increased participation in the formal financial system. Any person or small business that opens a formal bank account may be eligible for free debit cards under the public good premise. They may also use automated teller machines (ATMs) to conduct transactions without paying a fee. As a sunk cost of conducting business in the banking industry, financial service providers, such as financial institutions, will also be responsible for covering the cost of providing financial services ([Ozili, 2020; Khan & Khan, 2024](#)).

4.1.2. *Change theory of financial inclusion*

Expectations about how impoverished people should profit from interacting with finance have shifted due to financial inclusion. The "original" (microcredit) theory of change postulated that the higher profits from entrepreneurial endeavours made possible by microloans would reduce poverty. In contrast, the change theory of financial inclusion is unconcerned with entrepreneurship and is centred on two types of financial intermediation: intertemporal and interspatial-interclass. Intertemporal intermediation is based on the theory that a significant economic issue facing low-income individuals, who frequently have irregular incomes, is how to effectively manage their cash flow between periods of financial abundance and times of need. According to the theory, financial services enable individuals to reallocate their expenditures over time. This implies that when one's current income is insufficient to cover expenses, one can use past, future, or a combination of income sources (Mader, 2018). Financial services are therefore suggested to reduce poverty from a microeconomic perspective by moving money across time. A macro-level theory known as "interspatial-interclass intermediation" holds that finance stimulates economic growth by dividing capital and risk and reducing transaction costs. Capital is moved by finance from places and people with excess capital to places and people needing capital; the more robust the connections between these locations and individuals, the greater the growth arising from economic exchanges. Therefore, from a macroeconomic perspective, financial inclusion brings together more capital providers and users to drive economic growth, benefiting the impoverished (Khan & Khan, 2024).

4.1.3. *Vulnerable group theory of financial inclusion*

According to the vulnerable group theory of financial inclusion, a nation's financial inclusion initiatives and programs should prioritise the most vulnerable members of the population, including the elderly, children, women, and the impoverished, as they bear the brunt of financial stress and crises. Since financial crises and economic downturns frequently impact vulnerable individuals, including them in the formal financial system makes sense, as highlighted by Ozili (2020). Government-to-person (G2P) social cash transfers into the official accounts of vulnerable people are one technique to achieve this. Paying G2P social cash transfer benefits into the formal accounts of impoverished women and the elderly may catalyse other impoverished women and elderly individuals to enter the formal financial sector and open formal accounts to benefit from G2P social cash transfer benefits. This could lead to an increase in the financial inclusion of vulnerable groups. Since financial crises and economic downturns frequently impact vulnerable individuals, including them in the formal financial system makes sense (Anand & Chhikara, 2013).

4.2. *Synergistic Effect Concept*

When two or more entities operate together, their combined efforts can have a more significant overall effect than if each entity functioned individually. This is known as synergism. As Hron and Macak (2013, p. 498) mentioned, "*Synergism is an interaction between two or more agents, entities, factors, or substances that produces an effect greater than the sum of their individual effects. Also called the synergetic effect or synergistic effect, it is the opposite of antagonism.*"

For example, when two individuals simultaneously apply pressure on the same side of a heavy door, the door will open more quickly than if they worked separately—moreover, the combination of the entities in synergy and synergism results in a synergistic effect. When two or more entities come together, their combined influence is said to be synergistic since it exceeds the sum of their separate effects. As Tallarida (2011, p. 1003) pointed out, "When the combined effect is greater than that predicted by their potencies, the combination is said to be synergistic."

4.2.1. *Igor Ansoff (1965) and Michael E. Porter (1985) Synergy theories*

The question of what businesses should do to enhance their business value and gain a competitive edge has been the focus of a substantial amount of strategic management studies over the years. When two products or marketplaces come together, Igor Ansoff coined the phrase "synergy effect" in the 1960s to describe the general impacts that result. The central concept was that an increased value, which could not be obtained separately, might result from the combined effects (Raluca, 2011).

Igor Ansoff defines synergy as the outcome of the two resources working together that is larger than the sum of their contributions. Sales, managerial, operational, and investment synergies are the four forms of

synergy he covers. Ansoff argued that businesses that can leverage advantages in their core competencies through market diversification on well-chosen fronts are the most prosperous. The benefits of synergy may then result from this diversification (Raluca, 2011). However, Ansoff also opined that Synergies would be minimal or may be detrimental if the plan is poorly executed (Raluca, 2011).

Again, according to Porter's (1985) argument, diversified organisations with synergy have a competitive advantage over non-diversified firms. Nevertheless, competitors might be able to diversify their operations to get comparable advantages; in that scenario, synergy would lead to competitive parity. Porter (1985) also stated that efficiency increases can be attained by eliminating waste from reworking outputs and by adapting various resources or activities to a single objective by making them mutually supportive (Iversen, 2000).

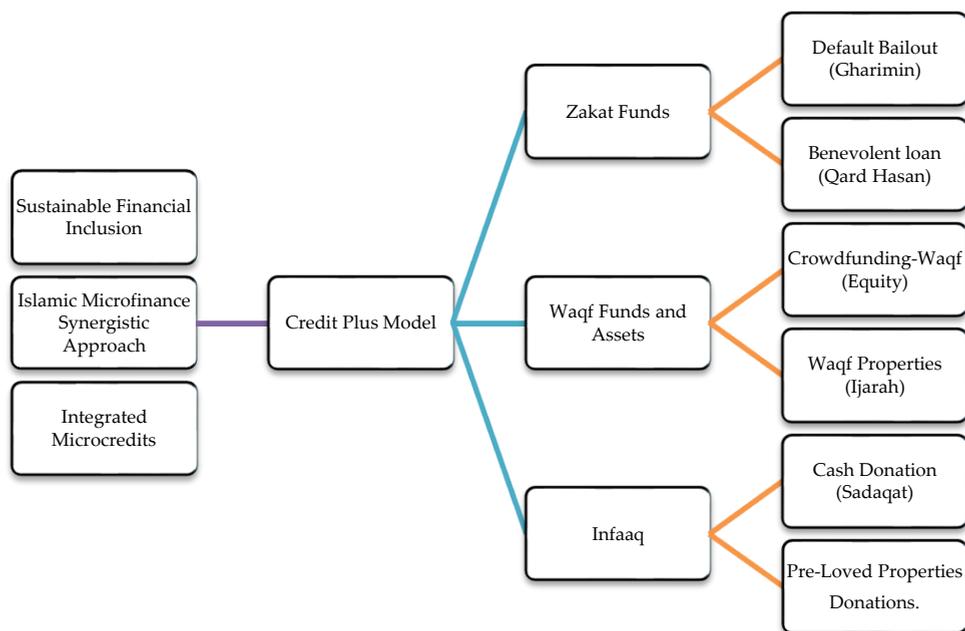
4.2.2. Synergy relationship between IMF and ISF about Igor Ansoff

Shabbir (2018) highlights that if there is synergy between the structured finance solution of Islamic social finance and existing Islamic microfinance programs, it will enhance the financing capacity of existing Islamic microfinance providers. In addition, this will also minimise the overall risks associated with operating Islamic microfinance institutions and enhance organisational innovation in the end. By utilising social finance instruments such as zakat, infaq, and waqf, Islamic microfinance institutions can offer new products in the market that are more attractive to potential customers, making it easier for them to escape the vicious cycle of poverty. Furthermore, ISF tools can help focus on creating more cohesive and convergent policies that direct these resources toward meeting the requirements of people experiencing poverty who receive Islamic microfinance.

4.3. Proposed Conceptual Framework: Islamic Credit Plus

This study developed a Credit-Plus concept based on a synergistic relationship by enhancing Islamic Microfinance capabilities through integration with various Islamic Social Finance resources. As argued in this study, Islamic social finance (ISF) instruments, such as zakat, waqf, and infaq, can also be a regular source of funds for microfinance programmes and thus can strengthen these programmes eventually.

In the proposed framework, it is suggested that Zakat money be collected for people with low incomes as a benevolent loan (*qard-e-hasan*) or as a default bailout (to *gharimin*). The waqf fund that will be collected for distribution to people experiencing poverty will be a cash waqf, a crowdfunding waqf, or an equity waqf, as well as other waqf properties, including *ijarah*. Again, the infaq portions will be collected as cash donations, Sadaqat, or as donations of pre-loved properties. The credit-plus model will integrate sustainable financial inclusion, a synergistic approach that combines Islamic microfinance with sustainable financial inclusion. The diagram below shows the conceptual pattern of this study:



Source: Author's own

Figure 1. Conceptual Framework

4.4. Islamic Microfinance Synergistic Approach

As explained by Islam et al. (2023), the religion of Islam encourages people to engage in social causes because it upholds the idea that individuals should be connected to their society. As a result, the Islamic social value system regards solving societal problems as both a shared and personal obligation. In this sense, the Islamic financial system introduces specific financial instruments to address social challenges and improve social well-being. To guarantee the equitable distribution of wealth, the Islamic economic system consists of a comprehensive financial framework that includes some unique financial tools, namely social funds, such as Qard Hasan (interest-free charitable loans), Sadaqah (charity), Waqf (endowments), and Zakat (mandatory almsgiving) (Kooli et al., 2022). These financial tools only improve social welfare (Yazdi et al., 2021). These tools are more beneficial when applied in socially conscious enterprises, such as Islamic microfinance institutions (Andriyani et al., 2020). Nevertheless, Islam et al. (2023) contended that they have not been institutionalised enough to support Islamic microfinance initiatives and social enterprises to date.

Haruna and Ayuba (2015) proposed a model for integrating Zakat and Waqf with microfinance institutions in Kano State, Nigeria. The researchers found that, because all of their clients are low-income and rarely save money for investments, Islamic microfinance institutions (IMFIs) worldwide struggle to maintain sufficient capital and working capital. Since credit is now their sole product, they also struggle with a lack of product variety. These are hindered by their competitiveness and the capacity to meet their clientele's diverse range of financial needs. The issues relating to a shortage of funds to operate the loan company will be reduced by combining the Waqf and Zakat with the IMFI. Thus, these institutions' competitive position can be strengthened since IMFI can offer a range of financial products.

Through a concept paper based on literature reviews, Islam et al. (2023) conclude that when used in Islamic microfinance programs and various social businesses, ISFs can lead to higher levels of social well-being than when given to charity in an unrestricted manner. This is because both business models utilise entrepreneurial means to promote social betterment while remaining technically independent and financially viable. ISFs can also enhance the investment strategy employed by social businesses, making them more receptive to charitable giving. Zakat, waqf, and infaq could be integrated to cover certain operating costs of Islamic microfinance institutions or tackle business risks. Zakat or waqf can also serve as a source of startup capital for Islamic microfinance institutions. However, the secondary data weakened the arguments presented by Islam et al. (2023).

The creation of Islamic microfinance organisations based on Zakat, Waqf, and Sadakat was suggested by Kahf (2004). They proposed using the returns from the Waqf and Sadaqat funds to finance the economy's productive sectors by offering interest-free microloans, engaging in Islamic debt and non-debt financing, and so on. These strategies can potentially foster long-term, sustainable economic growth and the advancement of the populace. Again, through literature review, Ali (2014) found that the zakah and waqf mechanisms are suitable for Islamic microfinance due to their Sharia-compliant frameworks and original Islamic ideas of helping people experiencing poverty and those in need. Zakah and Waqf are viewed as the most suitable instruments to help the impoverished who need financing, and may ultimately be successful in reducing poverty when used in conjunction with the microfinance concept.

As Dusuki (2008) noted, microfinance has garnered considerable attention as a means of developing the economies of rural communities and is essential for reducing poverty. It is intended to help underprivileged groups in society who are socially and economically marginalised and unbankable, typically because they lack assets, land, guarantors, literacy, or collateral. However, the existence of microfinance institutions offers promise for reducing poverty and the suffering of the average person. Dusuki (2008) further contended that while MFIs are not as sophisticated in raising capital as Islamic banks, other funding options still exist. Aside from conventional deposits and equity, MFIs can also raise funds from donations, zakat, and waqf funds, as well as government grants, which can be included in Islamic microfinance institutions.

By effectively integrating with Islamic microfinance programmes, Haruna and Ayuba (2015) found through content analysis of government papers and published literature that both Waqf and Zakat can bring about economic success and peace. It says combining Zakat and Waqf through Islamic Microfinance should be considered since it offers the government a stable real economy and supplies it with everlasting, sustainable funding. By combining Waqf and Zakat, the microfinance organisation can also leverage the unique benefits that each instrument offers. Haruna and Ayuba (2015) also stated that in addition to the available equity and internal funding of the institutions, integrating Zakat and Waqf with microfinance overcomes the restrictions of fund mobilisation.

4.5. Islamic Credit Plus Model

4.5.1. Zakat funds

Establishing Islamic microfinance institutions based on zakat that gives the impoverished access to capital is necessary to end poverty. In Sudan, for instance, the proceeds from Diwan al Zakah were utilised to provide interest-free loans to a group of average farmers regularly hit by drought and a lack of fertiliser. Funding was provided to them to increase their output, increase zakah contributions, and prevent them from falling into the impoverished category, thereby preserving their self-worth. Between 2003 and 2004, it provided a total of \$336,500 in loans to 8,000 people (Ali, 2014). The average family loan was not more than \$42.1 for six months. The overall cash crop value was approximately \$5 million, or fifteen times the total loan amount. \$250.5 million, or 74.4% of the loans, was collected in Zakat from farmers (Ali, 2014). Furthermore, the farmers were completely reimbursed for the loans (Ali, 2014). According to Ismail and Possumah (2013), zakat-based MFIs have the following features:

Table 1. Model of Zakat-Based Islamic MFIs

Zakat Based Islamic MFIs	
Usage of funds	Economic Production and Development
Sources of Funds	Zakat
Nature of Funds	Charity and Obligation
Type of charges	Interest-free
Nature of recovery	Only Community pressure
Type of Contributors	Obligatory
Type of motivation	Taqwa, Obligation, Brotherhood
Type of Empowerment	Family or Individual
Level of Participation	Compulsory participation by every individual in the society

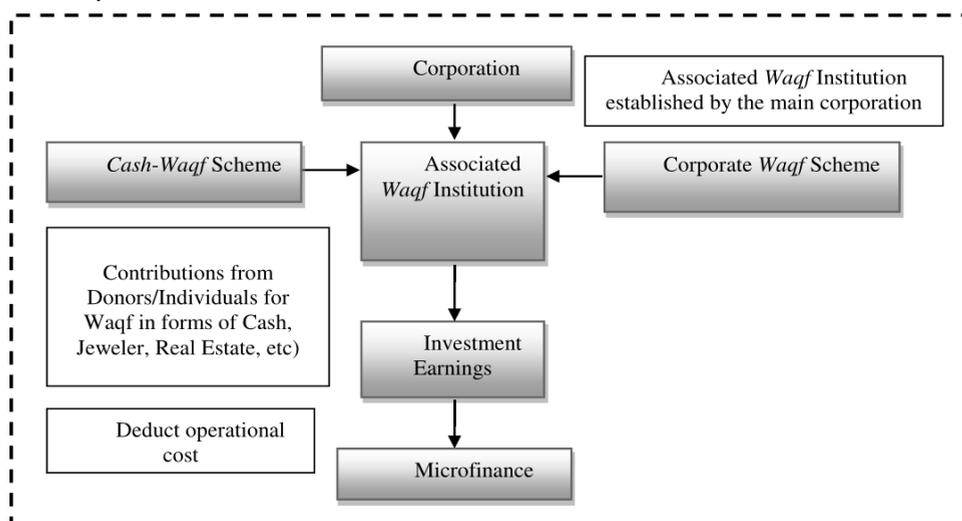
Source: Ismail & Possumah, 2013

Islamic microfinance organisations based on Zakat can collect money through Qardh Hasan, Sadaqat, and Zakat—compulsory charity and discretionary charity, respectively (interest-free deposit) (Ismail & Possumah, 2013). Implementing zakat and sadaqat will lessen the need to divert funds intended for investment into unproductive uses, increasing total returns on investment and lowering the likelihood of loan default. The main benefit of zakat-based IMFIs is that they give the underprivileged and needy the funding they need to start their enterprises and provide them with an incentive to work hard so they may repay the principal amount with no further fees. If the beneficiary cannot repay the loan, they become ghaarim, or "one burdened with debt." As a result, the beneficiary can use zakat as a legal means of repaying debt. This technique can lessen the receivers' stress related to company risk, foster a climate conducive to productive labour, and improve societal economic prospects (Ismail & Possumah, 2013).

According to Hassan et al. (2012), zakat aspires to enrich people in need instead of just providing for their basic needs. In light of this, the Zakat Institution has created initiatives to encourage Asnaf's economic activity and break the cycle of poverty. The efficiency of the Zakat fund's distribution is still in doubt because of the numerous duties that the Zakat Institution must fulfil. Zakat Institutions can help provide a more comprehensive manner of funding to the qualifying asnaf by working with other institutions, particularly microfinance institutions. The programme will identify and choose participants who can work and are interested in business. Thus, microfinance will supply the capital or business support needed for the productive asnaf. This kind of funding is intended to cover both the startup costs and the operating capital needs of the company (Hassan et al., 2012).

4.5.2 Waqf funds and assets

As highlighted by Ali (2014), the foundation of the Islamic microfinance concept based on waqf is the idea that resources are donated as waqf and should only be used appropriately to help people in need. As a result, Waqf-based Islamic MFIs have substantially lower expenses than traditional MFIs and are funded by the Waqf Endowment Fund. Furthermore, as they are donations, no returns are anticipated. While Waqf money will lower financial expenses and increase the MFIs' economic sustainability, Islamic MFIs pay returns on funds from deposits and beneficiary savings. In addition, the funding should be given to those in extreme poverty through Qardh Hasan or charitable loans, for which a return of the principal is not anticipated. The following figure depicts a waqf-based Islamic microfinance model:



Source: Ali, 2014

Figure 2. Waqf-based Islamic Microfinance Model

Saad et al. (2017) also opined that corporate waqf can be used to finance Islamic microfinance programmes. According to them, a microfinance programme or any social business could be initiated with the capital when it reaches the targeted amount, and corporate waqf can address this issue if appropriately planned, structured, and managed.

Through the content analysis method, [Abdullahi et al. \(2022\)](#) concluded that because cash waqf donors do not seek financial gain, waqf-based Islamic microfinance institutions (MFIs) can offer low-cost capital to underprivileged business owners. Additionally, waqf property revenues are recommended to exclusively fund the microfinance fund to guarantee the waqf's perpetuity. According to [Abdullahi et al. \(2022\)](#), Islamic microfinance based on cash waqf will assist microentrepreneurs in obtaining low-cost capital without needing collateral. In addition to non-monetary contributions, individuals can make monetary waqf contributions in any amount they are comfortable with. This provides a flexible way for people to give back and support causes they care about.

Similarly, [Saad and Anuar \(2009\)](#) described how potential donors who wish to contribute money to support the impoverished could be approached to provide cash waqfs for revenue-generating activities. An Islamic microfinance institution (IMFI) serving as the fund's trustee may source the funds. The impoverished or in-need micro-entrepreneurs will, after that, be the qualifying recipients of the monetary waqf, as determined by the IMFI. These micro-entrepreneurs can get loans on a cost-plus (*murābahah*) or profit-sharing (*muḍārabah*) basis. This way, when the micro-entrepreneurs pay back their loans, the proceeds can be reinvested in the cash waqf pool, which then serves as a source of funding for further micro-entrepreneurs. The *qard al-ḥasan* principle can be used to provide loans to the impoverished to help them meet their most basic needs while they live in extreme poverty. This type of loan is offered to the underprivileged for a predetermined amount of time without requiring them to pay back any profit or interest. Only the initial loan amount must be returned by the *Qard al-ḥasan* borrower.

4.5.3 Infaq

One type of *sadaqah* that can be monetary or non-monetary (in the form of wealth or property) is *infaq* ([Aji et al., 2020](#)), which can also serve as an effective source for microfinance programmes. *Fiqh* describes *infaq* as granting a portion of one's property to those to whom it is religiously prescribed to give it, including the impoverished, kin, orphans, and others ([Ulya & Al Azizah, 2021](#)). In particular, all Muslims are encouraged to give to charity, or *infaq*, through which Islam becomes one of the world's most generous religions ([Aji et al., 2020](#)). As the Prophet (PBUH) said, "Whoever relieves a believer from one of the troubles of this world, Allah will relieve him of one of the difficulties on the Day of Resurrection. Whoever relieves someone's suffering, Allah will ease his suffering in this world and hereafter" (*Sahih Muslim*).

5. Results and Recommendations

This research presents an innovative ISF-based Islamic microfinance Credit-plus model that emphasises collaboration between Islamic microfinance institutions and Islamic social finance organisations overseeing Zakat, Waqf, and related activities. When effectively executed, this pioneering system could help overcome resource limitations faced by IMFBS and improve transparency throughout. Over time, it has the potential to substantially bolster Nigeria's Islamic microfinance sector overall. Additionally, the ISF-based framework discussed here could have promising applications not only in Nigeria but also in other countries, given that Islamic finance is rooted in risk-sharing principles. To truly enhance the economic well-being of impoverished and vulnerable groups, it is necessary to transition from the current conventional microfinance approach to a more effective and sustainable Islamic microfinance system.

Besides funding deficits, this research shows that their narrow product range limits the long-term viability of Islamic MFIs. There are significantly fewer institutions working with *awqaf*, *zakah*, and *qard al-hasan* than anticipated, and most of those that do exist do not collaborate with other Islamic microfinance organisations to broaden their impact. The study suggests a Credit-Plus model that fosters partnerships to strengthen Islamic microfinance by combining it with other Islamic social finance mechanisms.

This study highlights that *zakah*, *waqf*, and *infaq* are key Islamic social finance (ISF) tools capable of providing dependable funds to expand microfinance initiatives. The proposed system involves collecting *zakah* and *waqf* funds for charitable loans (*qard-e-hasan*) or bailouts for defaulters (to *gharimin*), supporting the poor. These funds will be allocated to cash *waqf*, crowdfunding *waqf*, or equity for those in need. Additionally, *infaq* funds will be gathered through *sadaqat*, cash donations, or contributions of previously owned property. The credit-plus approach combines Islamic microfinance's synergistic methods with sustainable financial inclusion. To meet the funding requirements of Islamic microfinance institutions (MFIs), *zakah*, *waqf*, and *infaq* will be unified into a single framework. This integration aims to give marginalised community members access to investment opportunities, encouraging participation in activities that foster economic growth and alleviate

poverty.

This study will make a significant contribution by paving a new academic avenue for the study of financial inclusion in Nigeria, specifically the Islamic poverty alleviation scheme. Furthermore, this research empirically contributes to academia by examining the synergistic relationships between Islamic financial institutions, such as Islamic social finance and Islamic microfinance, the inclusivity of their products and services, and how they may leverage resources to alleviate poverty sustainably. In addition, this study will provide existing Islamic microfinance institutions and Islamic Social Finance organisations with a practical alternative for addressing their internal difficulties and maximising their financial and social impact with limited resources.

The results of this research will contribute to the efforts of both governmental and private sectors in fighting poverty by channelling more funding, such as Zakat funds and Cash Waqf to the needy microentrepreneurs with the credit-plus package, strengthening Islamic MFI through collaboration with zakat and waqf institutions, to fulfil their social mission to help people experiencing poverty and reduce financial exclusion. Furthermore, with the significant demand for Islamic MFIs in a poverty-ridden country like Nigeria as an alternative to the traditional MFI, there are incentives for conventional MFIs to convert to Islamic MFIs in the future.

Additionally, the findings of this study are likely to be of interest to policymakers, professionals, boards of directors, the public, clients, and academics, particularly in the context of philanthropreneurs and Islamic microfinance. Policymakers such as the Central Bank of Nigeria, the Ministry of Cooperatives and SMEs and the Association of Zakat and Waqf Operators in Nigeria (AZAWON) may use the findings regarding the formulation of new regulations to support zakat and waqf-based Islamic MFIs, capacity building, public education, awareness and give other incentives to establish, strengthen and empower Islamic MFIs in Nigeria.

6. Conclusion

To address poverty in Nigeria, Islamic microfinance banks and institutions offer a promising solution. However, their growth faces several challenges, including issues with fundraising, fintech, and awareness, among other factors. This study proposes a new ISF-based Islamic microfinance Credit-plus model that emphasises strong collaboration between Islamic microfinance institutions and Islamic social finance organisations managing Zakat, Waqf, and related activities. When effectively implemented, this innovative approach can help overcome the resource limitations of IMFBS and enhance transparency throughout the entire process.

With Islamic social finance tools such as zakat, waqf, and sadaqah, this research proposes a revolutionary, synergistic plan that enables the current Islamic microfinance system to expand its financial outreach in Nigeria by implementing the innovative Credit-Plus model. The product comprises an all-inclusive Shariah-compliant solution that incorporates several Islamic Microfinance and Islamic Social Finance offerings. The results of this research will contribute to the efforts of both governmental and private sectors in fighting poverty by channelling more funding, such as Zakat funds and Cash Waqf, to the needy microentrepreneurs with the credit-plus package, strengthening Islamic MFI through collaboration with zakat and waqf institutions, to fulfil their social mission to help people experiencing poverty and reduce financial exclusion. Furthermore, with the significant demand for Islamic MFIs in a poverty-ridden country like Nigeria as an alternative to the traditional MFI, there are incentives for conventional MFIs to convert to Islamic MFIs in the future.

This study also indicates that Islamic microfinance organisations should enhance their efforts to empower microfinance clients in achieving economic independence. Once again, it recommends that more ISF and IMF institutions start collaborating to address resource shortages. Additionally, Islamic MFIs should secure funds through Islamic social finance instruments from NGOs, wealthy Muslims, and individuals who are highly motivated to take part in volunteer and humanitarian initiatives.

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