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An Analysis of Nigeria's Islamic Microfinance Institutions Challenges and Future Prospects

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Abstract

Purpose: This study aims to analyse the potential prospects and challenges affecting the development of Islamic Microfinance Institutions (IMFIs) in Nigeria.

Design and Methodology: - The data for this study were collected through 28 semi-structured, face-to-face interviews with personnel, customers, and regulators of Islamic Microfinance Institutions (IMFIs). The analysis involved data reduction, coding, and the application of a thematic approach to systematically interpret the findings.

Findings: - The results of this study indicate that IMFIs in Nigeria encounter substantial obstacles to their expansion. These challenges encompass ambiguous regulatory frameworks, high compliance costs, and a prevalent perception that IMFIs cater exclusively to the Muslim community. Furthermore, clients, especially those from lower socioeconomic backgrounds, frequently lack adequate knowledge of IMFI products and possess limited financial literacy. Internally, IMFIs face difficulties in effectively extending their services to the unbanked population and are constrained by a deficiency of skilled personnel.

Practical Implication: - The study presents several recommendations aimed at enhancing the efficiency and impact of Islamic microfinance institutions in Nigeria.

Originality/Value: - The research offers valuable insights into the barriers hindering the growth of Islamic Microfinance Institutions (IMFIs) in Nigeria. It also explores potential policy measures and provides practical recommendations for their implementation.

Keywords: - Islamic Microfinance, challenges, prospects, financial inclusion, Nigeria

Classification: - Research paper

Introduction

The expansion and advancement of Islamic microfinance institutions hold great promise, particularly given the increasing demand for financial services among Muslim communities globally. The Islamic finance sector, including microfinance, is experiencing significant growth, outpacing traditional finance, with assets projected to reach $3.9 trillion by 2023 (Yakubu et al., 2018).

Microfinance has emerged as a significant mechanism for addressing the financial difficulties of marginalized and underserved populations, mainly through providing Shariah-compliant funding solutions that resonate with Muslim communities' religious and ethical principles. This methodology has proven to be especially productive in fostering small businesses, which represent a crucial component of local economic systems yet often encounter barriers to accessing traditional financial services. By aligning their operational frameworks with the Maqasid-Shariah, which encapsulate the fundamental objectives of Islamic jurisprudence, Islamic microfinance institutions (IMFIs) play a vital role in safeguarding and promoting essential societal constructs, including faith, human existence, intellect, wealth, and progeny (Kakembo et al., 2021). The efficacy of Islamic microfinance in these domains has attracted considerable scrutiny from both scholarly circles and policymakers, who acknowledge its potential as a crucial mechanism in the combat against poverty. Conventional microfinance has historically been perceived as empowering marginalized populations by equipping them with the financial instruments essential for enhancing their economic circumstances.

Nevertheless, Islamic microfinance introduces an additional dimension by guaranteeing that these financial instruments align with the ethical and religious principles of the communities they are designed to support. This congruence amplifies the acceptance and efficacy of these financial offerings and ensures that the resultant advantages are experienced across various facets of societal well-being. Academia and policymakers increasingly acknowledge the crucial role of microfinance in poverty reduction efforts. Addressing related development challenges is essential for microfinance to impact poverty reduction significantly. Properly leveraging the sector's opportunities can lead to sustainable contributions to poverty alleviation (Lateef et al., 2023).

Moreover, incorporating marginalized communities into structured financial frameworks via Islamic microfinance provides advantages for the individuals and communities directly engaged. It has wider ramifications for the Islamic finance sector at large. By facilitating the inclusion of a more significant number of individuals within formal financial structures, Islamic microfinance institutions contribute to the augmentation of the market presence of Islamic banking and finance, thereby generating novel avenues for advancement and creativity within the industry. This growth may result in a more robust and resilient Islamic finance sector better positioned to address the requirements of a heterogeneous and global clientele (Kustin, 2015).

Despite the substantial advancements achieved by Islamic microfinance institutions (IMFIs) globally, the sector persistently confronts the intricacies stemming from disparate Shariah standards across various regions. These variances can engender confusion and ambivalence among practitioners and clients, resulting in discrepancies in applying Islamic financial principles. This predicament is particularly accentuated in areas characterized by a lack of consensus among Shariah scholars concerning the interpretation and execution of Islamic finance principles. Nevertheless, there is an increasing acknowledgement that the standardization of these principles is not merely advantageous but also essential for Islamic microfinance's enduring sustainability and growth. By aligning Shariah standards across diverse regions, IMFIs can function with enhanced clarity and assurance, ensuring their products and services are universally recognized as Shariah-compliant. This standardization will bolster the credibility of IMFIs and promote cross-border transactions and collaborations, consequently expanding their impact and reach. Consequently, the sector will more likely contribute to collective prosperity and economic development, especially in Muslim-majority nations such as Nigeria (Bello & Abubakar, 2014).

In Nigeria, the Islamic microfinance sector has grown substantially in recent years, indicative of the rising demand for Shariah-compliant financial services among the nation's considerable Muslim demographic. Numerous Islamic Microfinance Institutions (IMFIs) have been established, each providing various financial products tailored to their clientele's requirements. These offerings encompass micro-loans, which furnish essential capital for small and medium-sized enterprises (SMEs); savings accounts, which promote financial prudence and assist clients in constructing a financial safety net; and insurance services, which safeguard clients against unforeseen contingencies, all while rigorously adhering to Shariah law.

The rapid expansion of Islamic microfinance in Nigeria demonstrates the sector's ability to promote financial inclusion and stimulate economic empowerment. Islamic Microfinance Institutions (IMFIs) can effectively attract demographic populations historically excluded from the conventional financial system by offering financial instruments that align with their religious beliefs. This situation is critical in Nigeria, where a significant portion of the population is either unbanked or underbanked, frequently due to religious or cultural factors. IMFIs use Shariah-compliant financial solutions to promote financial inclusion and contribute to the nation's socioeconomic development.

Despite the progress achieved, IMFIs in Nigeria continue to encounter significant challenges that impede their growth (Dogarawa & Uthman, 2012). This research, therefore, explores the potential and challenges of Islamic microfinance in Nigeria, with a particular focus on the prospects and obstacles faced by IMFIs. Additionally, the study seeks to provide recommendations to strengthen IMFIs by enhancing financial inclusion through Islamic micro-credit products, which are regarded as a viable alternative to the high-interest rate schemes typically offered by conventional microfinance banks

The paper is structured as follows: the next section provides a literature review, offering an overview of Islamic microfinance in general, focusing on Nigeria. This is followed by describing the research method used to answer the research questions. The findings and discussion sections come next, followed by the conclusion.

Overview of Islamic microfinance

A review of pertinent literature reveals that Islamic microfinance predates conventional microfinance (Azeemi bin Abdullah Thaidi et al., 2022). While the Grameen Bank is widely recognized as a prominent institution in microfinance, the concept of Islamic microfinance has existed since 1963 with the establishment of the Mitt Ghamr Savings Bank (MGSB) (Azeemi bin Abdullah Thaidi et al., 2022). This initiative emerged as a response to the impoverished conditions of Muslim communities in rural areas (Hossain & Faruk Abdullah, 2019). In contrast to conventional microfinance, Islamic microfinance embodies the principles of Maqasid-Shariah, striving to enhance the welfare of rural, underprivileged, and poor individuals by promoting their involvement in profitable ventures through small-scale (Azeemi bin Abdullah Thaidi et al., 2022). Unlike conventional financial services, Islamic microfinance provides borrowers with more feasible financial arrangements, addressing the challenges the poor face in managing their finances (Yusuf, 2019).

As such, Islamic microfinance institutions ensure adherence to Sharia principles through various mechanisms. One such mechanism is the establishment of Sharia governance frameworks, which can be either centralized or decentralized, to oversee and ensure compliance with Islamic financial practices (Hailu & Tekdoğan, 2023). Additionally, these institutions depend on fatwas issued by recognized Sharia councils to guide their operations and decision-making processes (Abdulaziz et al., 2019). Furthermore, Islamic microfinance institutions prioritize transparency and disclosure of Sharia compliance issues in their annual reports to bolster public trust and demonstrate their dedication to Islamic principles. Shariah advisors within these institutions are essential for ensuring Sharia compliance, as they provide guidance and oversight throughout their procedures (Tijani et al., 2020).

Islamic microfinance has undergone substantial transformation, emphasizing financial inclusion and sustainable development. Initially, Islamic microfinance institutions were established to adhere to Islamic teachings from the Qur'an and As-Sunnah, primarily providing financing for micro-enterprises and the business sector (Hassan et al., 2021). Over time, Islamic microfinance has become popular, particularly in nations with most Muslims, such as Bangladesh, where conventional microfinance has long been practised (Hossain & Faruk Abdullah, 2019). Despite certain obstacles, such as the lack of knowledge among micro and small businesses about Islamic microfinance institutions' funding sources, goals in Islamic microfinance's capacity to support sustainable financial systems are growing.

The Role of IMFIs in Nigeria

The origins of microfinance in Nigeria can be traced back to ancient cooperative societies and informal savings clubs that have existed for generations (Otu & Endeley, 2018). These informal grassroots initiatives laid the foundation for establishing professional microfinance institutions (MFIs) that began to emerge in the late 20th century. Influenced by global trends and the recognition of microfinance as a tool for poverty alleviation, Nigeria saw the introduction of Islamic finance in the early 1990s, primarily through commercial banks offering Sharia-compliant products. The consistent demand for Islamic financial services was driven by the need of the Muslim population for financial solutions aligned with their religious convictions (Yakubu et al., 2018). This demand led to the emergence of Islamic microfinance in the early 2000s, spearheaded by non-governmental organizations (NGOs) and community-based organizations (CBN, 2016).

These Islamic Microfinance Institutions (IMFIs) primarily aimed to provide Sharia-compliant financial services to individuals with limited access to traditional banking, thereby fostering financial inclusion and stimulating economic growth.
To a certain extent, IMFIs in Nigeria have addressed the financial exclusion faced by a significant portion of the population who avoid conventional financial services due to religious beliefs. By offering Sharia-compliant financial products that align with Islamic ethical standards, IMFIs significantly improve financial inclusion (Mustapha et al., 2021). This integration enhances the capabilities of individuals and small enterprises and promotes economic expansion and poverty alleviation. By providing customized financial solutions that consider cultural and religious sensitivities, IMFIs promote financial inclusion and equity, connecting underprivileged populations with the formal financial system and creating a more inclusive economic environment (Gidado, 2018).

Research by Balogun et al. (2014) investigated Islamic finance as an alternative funding source for female entrepreneurs in Sokoto State, Nigeria. Using an analytical approach based on earlier research, Balogun et al. (2014) highlighted Islamic finance's potential benefits and significance for women-owned businesses in Sokoto State. The findings revealed that financing remains a significant barrier to the success of women entrepreneurs' businesses in the region. The study concluded that Islamic finance, through microfinance products such as Mudarabah, Musharakah, Murabahah, Ijarah, and Wakalah, can support women entrepreneurs in Sokoto.

Al-Ameen's (2016) study examined the necessity of integrating Islamic microfinance into Nigeria's financial system and highlighted the injustice and rights violations that result from the lack of Islamic microfinance regulations. The study emphasized the absence of a Sharia-compliant pathway for government-funded initiatives. It argued for citizens' right to Islamic microfinance and proposed an egalitarian economic strategy to address the issues within Nigeria's current financial system. Additionally, Adepoju and Oyesanya (2014) conducted a critical analysis of the Al-Hayat Relief Foundation's poverty alleviation strategies, providing a framework for Muslim communities in Nigeria to reduce poverty. The analysis showed that the Al-Hayat Relief Foundation, a microfinance organization, has implemented significant steps to alleviate poverty among Muslims through interconnected strategies.

Thus, Nigeria's Islamic Microfinance Institutions (IMFIs) play a vital and varied role in reducing poverty, promoting financial inclusion, and driving economic progress. By serving micro, small, and medium-sized enterprises (MSMEs) and advancing ethical financial practices, IMFIs provide Sharia-compliant financial products tailored to the needs of those who abstain from conventional banking for religious reasons. This approach significantly contributes to the nation's overall socioeconomic development while meeting the financial demands of the Muslim community (Hassan et al., 2021). The influence of IMFIs extends beyond financial services. They play a crucial role in social development initiatives by offering healthcare funding, educational programs, and community development activities (Dogarawa & Uthman, 2019).
Furthermore, by prioritizing financial literacy, IMFIs equip individuals with the knowledge and skills to make informed financial decisions, fostering an environment that values ethical and long-term money management (Azeemi bin Abdullah Thaidi et al., 2022). IMFIs contribute to Nigeria's more equitable and inclusive financial system through these initiatives. Their emphasis on social

justice and ethical finance ensures that the progress of the financial system aligns with principles of justice and shared prosperity, ultimately leading to a more robust and stable economy.

Method

A qualitative research approach was employed to acquire a comprehensive understanding of the issues. The study's primary purpose is to investigate participants' perspectives (the informants) on the prospects and challenges encountered by Islamic microfinance institutions (IMFIs) in Nigeria. Due to the qualitative nature of the research, data was gathered via semi-structured interviews. These interviews allow for in-depth exploration of themes while keeping a standard framework for all participants.

The selection of informants

Informants were selected carefully to obtain a complete perspective on the subjects being discussed. Those interviewed consisted of representatives from Islamic microfinance institutions and their clients, which allowed for direct and authentic narratives about the experiences and perspectives of Islamic microfinance. In addition, the participants were selected from important regulatory institutions, including the Central Bank of Nigeria (CBN) and the Nigerian Deposit Insurance Scheme (NDIC). These institutions have a crucial function in regulating and supervising financial activities. Their knowledge is beneficial for comprehending the broader regulatory and institutional framework in which IMFIs operate. This methodology guarantees the inclusion of diverse viewpoints in the study, resulting in a more holistic understanding of how Islamic microfinance affects the unique possibilities and challenges these organizations encounter.
The interviews were conducted with 28 individuals, including four representatives from the Central Bank of Nigeria (CBN), six from the Nigeria Deposit Insurance Corporation (NDIC), 12 staff members from three selected IMFIs, and eight IMFI customers. The list of people interviewed is shown in Table 1. As a customary procedure, every informant was provided with a letter of consent and a set of interview questions via email. They then replied with their chosen time and location. We anonymized the names of the IMFIs involved in this study. The data collection lasted for six months, from November 2023 to April 2024

Table 1 The List of People Interviewed

Participant ID	Participant institution	Designation
AA1	Central Bank of Nigeria	Director
AA2	Central Bank of Nigeria	Director
AA3	Central Bank of Nigeria	Senior Executive officer
AA4	Central Bank of Nigeria	Senior Executive officer
BB1	Nigerian Deposit Insurance Corporation (NDIC)	Director
BB2	Nigerian Deposit Insurance Corporation (NDIC)	Director
BB3	Nigerian Deposit Insurance Corporation (NDIC	Director

BB4	Nigerian Deposit Insurance Corporation (NDIC)	Higher Executive officer
BB5	Nigerian Deposit Insurance Corporation (NDIC)	Coordinator
BB6	Nigerian Deposit Insurance Corporation (NDIC)	Higher Executive Officer
CC1	MFI 1	Manager/Director
CC2	MFI 1	Head Credit Unit
CC3	MFI 1	Credit officer
CC4	MFI 1	Loan recovery officer
CC5	MFI 2	Head of Finance
CC6	MFI 2	Marketing Executive
CC7	MFI 2	Credit officer
CC8	MFI 3	Risk Manager
CC9	MFI 3	Manager
CC10	MFI 3	Credit officer
CC11	MFI 3	Field officer
CC12	MFI 3	Marketing Officer
D1	Customer	Customer MFI1
D2	Customer	Customer MFI1
D3	Customer	Customer MFI1
D4	Customer	Customer MFI 2
D5	Customer	Customer MFI 2
D6	Customer	Customer MF1 3
D7	Customer	Customer MF1 3
D8	Customer	Customer MF1 3

Sources: Researcher Illustration

The interviews were recorded and transcribed. In addition, data reduction, integration, and visualization steps were implemented in the data analysis.

Findings

The data analysis shows that Nigeria's IMFIs encounter substantial challenges and obstacles to their growth, which are explained below.

Insufficient comprehension and knowledge regarding the IMFI products

There is a widespread lack of understanding among clients regarding Islamic banking products. Specifically, lower-income individuals are unfamiliar with Shari'ah-compliant financial methods such as Musharakah, Murabaha Qard-Hassan, etc, as shown by the comments of the Marketing Executive of MFI 2 **(**CC7) *" The only knowledge the clients bring to the loan application is that our institution offers interest-free loans; they have no idea about the Shari'ah-compliant products."* This is not surprising, given that a significant portion of the population in Nigeria remains uninformed regarding the concept of Islamic microfinance. Previous researchers, such as Bello & Abubakar (2014) and Dogarawa & Uthman (2019), have argued that a lack of awareness is a significant obstacle in Nigeria's Islamic finance sector. Similarly, some informants in this study highlighted awareness-related issues as a major challenge. They noted that explaining Islamic concepts to clients can be difficult, and a portion of the IMIF clientele began to understand Islamic finance terminology only after receiving detailed explanations, despite their initial struggles with these terms.

The IMFI customers also face difficulties in comprehending Islamic terminology due to its rare usage in their daily lives. Many clients encounter these terms only when they first engage with Islamic microfinance institutions. One respondent, CC10, expressed concern about the widespread misconception among clients that IMFIs are purely philanthropic organizations and quoted:

"A further issue is the widespread misconception regarding Islamic banking. Numerous individuals falsely believe that visiting an IMFI results in receiving a complimentary fund. They have no intention of repaying us, and these are the primary internal issues we are currently encountering."

He also specified a set of focused measures and tactics that Islamic Microfinance Institutions (IMFIs) have adopted to address difficulties linked to awareness. IMFIs have actively collaborated with Islamic spiritual leaders, intellectuals, and Imams, acknowledging their crucial influence in shaping public image. These agreements entail educating these significant personalities about the principles and advantages of Islamic finance, empowering them to spread this knowledge through several venues. By utilizing institutions such as mosques, religious schools, and community gatherings, these leaders can successfully improve Islamic financial knowledge among the wider populace. This bottom-up strategy promotes enhanced comprehension and endorsement of Islamic financial products, while reinforcing the confidence between IMFIs and the populations they cater to.

"*There are numerous steps. We had several great conversations with the imams in our vicinity who are well-known for promoting us through their diverse media platforms. First, we are becoming the best of friends. as soon as the CBN grants us an Islamic license. The second task is to inform or reorient them regarding the Islamic MFIs.*"

Many people remain unaware of the significant benefits offered by Islamic Microfinance Institutions (IMFIs), particularly in providing Shariah-compliant financial services that can drive economic empowerment and promote social inclusion. To address this knowledge gap, there is an urgent need for comprehensive educational and outreach programs. These initiatives should focus on raising awareness among potential beneficiaries, highlighting IMFIs' ability to deliver ethically grounded financial solutions while supporting community development and financial independence. Increasing public understanding of the unique value of IMFIs is essential for their broader adoption and effectiveness in serving marginalized communities.

Regulatory Compliance Issues

Islamic financial institutions in Nigeria are currently operating their business under the shadow of the Central Bank of Nigeria. The rules and regulations designed are based on conventional MFI. Nevertheless, while amending the procedure, the experts in Islamic law, often known as the Sharia

Council, were rebranded as the Advisory Council of Experts (ACE). In Nigeria, the task of selecting an Advisory Council of Experts (ACE), especially in the context of Islamic finance institutions, is usually assigned to the governing board or administration of the specific Islamic financial institution. The council, also known as a Shariah Advisory Board, is responsible for ensuring that the institution's financial products and services adhere to Shariah principles. The Central Bank of Nigeria (CBN) regulates Islamic finance in the country and may issue recommendations or frameworks for the operation of these councils.

Nevertheless, the financial institution typically handles the appointment of the Advisory Council of Experts, with potential regulatory clearance if necessary. Their role is to guide the CBN on financial products compatible with Islamic principles and marketable in the financial market. The Guidelines incorporated seven Islamic financial instruments, namely Murabaha, Mudarabah, Musharakah, Ijarah, Salam, Istana, and Sukuk, in their respective forms. However, comprehensive descriptions of distinct frameworks were lacking. In addition, the Act introduced an Islamic window service for conventional MFIs, enabling them to offer cross-selling services alongside their usual banking services. The Director of Central Bank of Nigeria, commented about the regulatory framework of IMFI in Nigeria.

"*There are 874 microfinance banks in Nigeria, but less than ten practice Islamic finance. This is a very small number, which means that individuals who require Islamic financial services have limited options. They are unable to request a distinct legal framework that differs from conventional banks to make comparisons. Now, comparing both is nearly identical, albeit it should be distinct from the traditional bank, which is the primary issue. Furthermore, the guidelines we are utilizing are specifically designed for traditional financial institutions, with the exception that we possess criteria that set us apart."*

The Director Nigerian Deposit Insurance Corporation (NDIC) "said that CBN should emulate Malaysia's approach and enact a separate Act to separate laws guiding IMFI from conventional MFI".

The current regulatory framework in Nigeria poses a significant obstacle to Islamic MFI because it is specifically designed to cater to conventional practices. The effective functioning of Islamic MFI is contingent upon the presence of a dedicated legal framework for its institutions. This can be deduced from the fact that although Islamic MFI functions according to Shari'ah principles, the challenge lies in the legal enforcement of these operations in Nigerian courts without the incorporation of Islamic laws into the country's legal system. The sole solution is the implementation of specific legislation to govern the functioning of Islamic Microfinance Institutions (MFI) in Nigeria. Furthermore, The Director Nigerian Deposit Insurance Corporation explained that the regulatory challenges faced by IMFI are linked to MFI's conventional banking license: "*Until the Islamic MFI license is secured, we must follow specific regulations and staffing requirements to conduct Islamic banking operations. Full compliance with these is crucial, including employing qualified experts and adhering to the relevant Islamic banking rules.*" Similarly, the Head of Finance at MFI 2 mentioned: "*As an Islamic finance institution, we need to work towards harmonizing Shariah standards, as there is currently no unified standard. The way I handle my responsibilities here might differ from other IMFIs in Nigeria*."

Skilled Manpower Issues

There is a notable shortage of skilled professionals in the field of Islamic microfinance. The success of Islamic MFIs in Nigeria depends heavily on the availability of qualified personnel with expertise in teaching, training, and researching Islamic finance, and a solid understanding of both Islamic and conventional finance and economics. Organizations that invest significantly in training and retraining their workforce tend to improve performance and achieve their long-term objectives at a faster rate than those that invest less. Feedback from respondents suggests that the current training infrastructure for Islamic finance in Nigeria is insufficient in equipping individuals with the necessary knowledge and skills. Existing programs lack the depth needed to develop professionals with a strong understanding of Shariah principles and the complexities of modern financial systems. As a result, there is a limited pool of experts capable of effectively managing and driving innovation in Islamic Microfinance Institutions (IMFIs).

There is also a significant shortage of well-structured training programs tailored specifically for Islamic finance professionals. This gap in education and professional development is a serious issue, leaving a large portion of the workforce unprepared to address the unique challenges and complexities of the Islamic banking sector. Without these specialized training programs, practitioners may find it difficult to fully grasp and implement Shariah-compliant principles, leading to inefficiencies and potentially compromising the ethical values that are fundamental to Islamic banking. The lack of comprehensive, focused educational programs hinders both innovation and development within the industry, while also limiting the ability of Islamic financial institutions to compete effectively on a global scale.

Additionally, there is a scarcity of information about Islamic financial products in Nigeria, even within the Muslim community. Most Muslims are only aware that Islamic banking operates on a non-interest model, while individuals from other religious backgrounds have little to no understanding of the concept. This lack of awareness presents a significant barrier to the growth of Islamic banking in Nigeria, fostering unnecessary opposition and reducing public acceptance.

In light of this, the advancement of Islamic Microfinance Institutions (IMFIs) in Nigeria, particularly concerning human resources, requires sufficient financial resources for educational and research institutions. Additionally, establishing more institutions across Nigeria is necessary to support the development of the Islamic finance sector.

Misconception Issue

Data from informants revealed that many customers struggled to understand the Islamic terminology used in financial instruments. The lack of Islamic Financial Literacy is a major issue for the global Islamic finance sector, especially in Africa, where the average Muslim finds it difficult to distinguish between Islamic and conventional banking systems. In Nigeria, the Islamic banking framework—its operations, product offerings, and regulatory standards—is still in its developmental stages. The Senior Executive Officer of Central Bank of Nigeria commented, *"Because of their varied religious and cultural backgrounds, certain members of the targeted demographic have a poorer comprehension of Islamic terminology."*

One major challenge facing Islamic MFIs in Nigeria is the country's diverse cultural and religious landscape. This diversity creates misconceptions, often leading to public resistance toward Islamic financial institutions. Many informants also raised awareness-related challenges, with misconceptions about Islamic banking being a common theme. Islamic MFIs in Nigeria face significant hurdles due to a lack of knowledge about the objectives, principles, and benefits of Islamic banking. Even many Muslims only have a basic understanding that Islamic banking is interest-free, while non-Muslims often have little to no awareness of the concept. This lack of understanding impedes the growth of Islamic banking in Nigeria, resulting in unnecessary opposition and limited societal acceptance. In response, Islamic Microfinance Institutions have undertaken initiatives to improve credit access and raise awareness of Islamic banking, particularly in rural areas, to combat financial exclusion. Thus, the challenges and issues faced are shown in Table 2.

Table 2: Challenges and Issues Faced by IMFIs

Challenges	Issues
Insufficient comprehension and knowledge regarding the IMFI products	Lack of clear Explanation of Islamic Financial Products Lack of sufficient knowledge Expectation of free grant
Regulatory compliance	Lack of clear act governing IMFI Lack of understanding of Risk and Moral Hazards Sharia Compliance
Skilled manpower	Lack of proper training Institutional learning Supervision and appraisal
Misconception Issues	Religious differences Cultural Background In proper awareness

Discussion

The progression of Islamic microfinance in Nigeria has been marked by significant advancement and expansion, influenced by an increasing need for financial services that are compliant with Sharia principles and the collaborative endeavours of different stakeholders. Microfinance is widely recognized as a significant poverty alleviation strategy within the nation, actively contributing to the economic upliftment of impoverished individuals. Despite its achievements, traditional microcredit approaches often fall short of addressing the needs of the most vulnerable members of society.

While conventional microfinance systems have played a crucial role in improving the economic conditions of many impoverished Nigerians, there is evidence to suggest that the benefits have primarily reached the poor individuals rather than the hardcore poor. This has led to criticisms that the traditional microcredit model has failed to substantially impact those in the deepest levels of poverty and, in some cases, may have even worsened financial hardships for the most destitute. In response to these challenges, Islamic microfinance institutions (MFIs) have introduced a range of financing mechanisms designed to address the limitations of traditional microfinance models. Scholars have noted that the emergence of Islamic microcredit offers impoverished individuals in

Nigeria a new opportunity for financial inclusion and economic improvement. However, the sector continues to face significant challenges that must be addressed to realize its full potential. Thus, this research has examined the challenges faced by IMFIs in Nigeria.

A significant issue faced by IMFIs identified in this research is the low level of awareness and understanding of Islamic microfinance products among potential clients in Nigeria. Many individuals remain sceptical or uninformed about the benefits of Sharia-compliant financial services. This finding aligns with Bello and Abubakar (2014) and Dogarawa and Uthman (2019), who emphasize awareness as a critical challenge for Islamic finance in Nigeria. To address this, it is crucial to implement effective marketing strategies and educational initiatives to enhance awareness and build trust with potential IMFI clients. Community engagement and targeted outreach programs could be instrumental in overcoming trust issues and providing adequate knowledge about IMFI products and services.

Another significant barrier is the legislative framework, which is predominantly designed to support conventional microfinance institutions rather than the Islamic sector. This misalignment creates regulatory challenges for Nigerian IMFIs, impacting their operational efficiency and growth potential. The specific characteristics of Islamic finance, such as profit-and-loss sharing and the prohibition of interest, often conflict with existing regulations (Dogarawa & Uthman, 2019). Consequently, IMFIs struggle to obtain the regulatory support and flexibility enjoyed by conventional financial institutions, limiting their ability to enhance financial inclusion and contribute to economic development. Thus, the research also indicates that the lack of a suitable regulatory framework and misconceptions about Islamic finance hinder the effectiveness of microfinance banks in promoting financial inclusion. Policymakers need to develop and implement policies tailored to the unique requirements of IMFIs. Enhanced collaboration between regulatory bodies and Islamic finance institutions could foster a more conducive regulatory environment.

Additionally, the viability of IMFIs in Nigeria depends on the availability of skilled human capital with expertise in Islamic finance and conventional financial practices. The findings of this study reveal a shortage of qualified personnel to manage Islamic financial instruments. Addressing this challenge requires increased funding for educational and research institutions focused on Islamic finance and establishing additional training facilities within Nigeria. The Central Bank of Nigeria (CBN) should consider organizing workshops and training programs on Islamic finance for tertiary education students, banking professionals, and researchers. These initiatives could significantly improve the sector's human resource capacity.

Cultural and religious diversity in Nigeria poses another challenge for IMFIs. Misconceptions about Islamic finance, particularly among non-Muslims, may limit the widespread acceptance of these institutions. Salaudeen and Zakariyah (2022) highlight this issue, noting that some non-Muslims view Islamic finance as exclusively for Muslims. To overcome this, collaboration between the CBN, religious organizations, and Islamic banking institutions is crucial in raising awareness about the objectives, benefits, and requirements of IMFIs. This joint effort is essential for the successful implementation of Islamic banking principles and the achievement of Shari'ah-compliant financial goals in Nigeria.

Conclusion

The study of Islamic Microfinance Institutions (IMFIs) in Nigeria reveals a complex landscape marked by significant challenges and promising opportunities for future development. The findings highlight the current state of IMFIs and identify key pathways for their advancement. The primary difficulties IMFIs face include a general lack of understanding and knowledge regarding the financial products they offer. This issue is further compounded by the existing regulatory framework in Nigeria, which is not fully aligned with the specific needs and issues related to IMFIs. Additionally, there is a shortage of skilled personnel in the Islamic microfinance sector and widespread misconceptions or misunderstandings about Islamic finance in general and Islamic microfinance in particular. The study emphasizes the need for a more robust regulatory framework specifically designed for Islamic Microfinance Institutions (IMFIs). It also advocates for the standardization of Shariah practices to ensure consistency and credibility across the sector. Additionally, the study highlighted the key role of IMFIs in promoting financial inclusion among Muslim communities and supporting small and medium-sized enterprises (SMEs) through Shariah-compliant financing, which is essential for stimulating economic growth and alleviating poverty. This study also suggests improvements in operational efficiency by addressing key challenges such as the shortage of skilled personnel and widespread misconceptions about Islamic finance. It contributes to the existing literature on Islamic microfinance, particularly in the Nigerian context, and lays the foundation for future research to explore the challenges and opportunities in this sector further. By addressing these issues, IMFIs can enhance their effectiveness and play a crucial role in promoting financial inclusion, as well as supporting economic and social development in Nigeria.

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