Lecture Notes in Networks and Systems 621

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Allam Hamdan
Reem Khamis
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Digitalisation: Opportunities and Challenges for Business

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Preface

We are delighted to write this Foreword for the International Conference on Business and Technology (ICBT'22) proceedings. I deeply believe in the role of such a conference and other similar scientific forums in bringing together leading academicians, scholars, and researchers to share their knowledge and new ideas as well as to discuss current developments in the fields of economics, business, and technology. ICBT'22 provides a valuable window on the implementation of technology such as artificial intelligence, IoT, and innovation in business development. For two days, a large number of distinguished researchers and guest speakers discussed many contemporary issues in business and technology around the world. We have a strong faith that this book will be of great benefit for many parties, especially those aspiring to develop buoyant strategies that will lead to positive impact on any future endeavors. Finally, I hope that the ICBT'22 continues as a destination for researchers, postgraduate students, and industrial professionals.

Bahaaeddin Alareeni
Allam Hamdan

Contents

Sustainability and Operational Challenges of Islamic Microfinance in Nigeria: The Case of Al-Hayat Microfinance Bank

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Abstract. Nigeria's economy is currently the largest in Africa and the world's 26th, with a Gross Domestic Product (GDP) of US$600 billion (roughly N81 trillion) in 2017. Unfortunately, the prevalence of poverty in Nigeria is also growing. According to the World Bank estimate, poverty accounts for more than 70% of the population, implying that over 130 million people live below the poverty line. Microfinance is one of the most successful strategies for eliminating poverty since it provides access to financial resources that can assist in reducing poverty by fostering financial involvement and empowerment. Despite the fact that there are over 800 microfinance banks in Nigeria, their contribution to the country's economy is less than one percent. In addition, the basic objective of eradicating poverty has not yet been attained. Therefore, the extant literature has projected Islamic microfinance banks as a feasible solution to alleviate poverty in Nigeria, especially by looking at many Muslims in the country. Hence, Islamic microfinance banks continue witnessing minimal or no development in Nigeria. This study examines the obstacles impeding the growth of Islamic microfinance banks and their commercial viability. It also aims to provide solutions and recommendations to assist Islamic microfinance banks in regaining the public's trust by expanding their financial inclusion through various Islamic micro-credit products as a viable alternative to the existing conventional microfinance banks that offer high-interest loans. This study uses qualitative research techniques to fulfil its objectives. The data for this study were gathered using a semi-structured interview. The research reveals several regulatory concerns, such as licence processes and substantial paid-up capital, which is one of the most significant obstacles. Similarly, awareness, misconception, and compliance continue to be the most critical obstacles for IMFBs in Nigeria. Implications of the study for microfinance institutions, policy regulators, and recommendations have been provided in line with the main findings.

Keywords: Islamic microfinance · Poverty alleviation · Financial inclusion · Al-Hayat Microfinance Bank · Nigeria

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1 Introduction

Nigeria is Africa's most populous country, with more than 200 million people. A GDP of US $600 billion (i.e., approximately N81 trillion) makes Nigeria the largest economy in Africa and the 26th largest economy globally as of 2017. (World Bank 2018). However, unfortunately, poverty keeps increasing even faster than the population in Nigeria. According to the World Bank (2019) report, poverty accounts for more than 70% of the total, indicating that more than 130 million people live below the poverty line. The report concludes that Nigeria now occupies the second position in poverty capital worldwide after India.

Microfinance is one of the effective methods in combating poverty because it offers access to financial resources that can aid in poverty reduction by promoting financial engagement and empowerment. Microfinance is argued to be a worthy circle for breaking the poverty chain. Micro-credit infusion facilitates self-employment for the borrower and raises livelihood consumption, saving, and purchasing power. Many impact studies (El Hadidi 2018; Oluyombo and Ogundimu 2017; Seibel 2005; Srinivasan and Sriram 2003) show that microcredit enables recipient households to achieve a higher standard of living, better accommodation, a higher level of human growth, more assets, and a turn away from moneylenders. Several microfinance platforms have been established to combat the threat of poverty using conventional and Islamic microfinance. Despite several microfinance programmes, poverty remains a concern for Nigeria's government, the business sector, and non-governmental organisations (NGOs) since a large proportion of the population lacks access to financial services. The National Bureau of Statistics (NBS) (2020) statistics show that microfinance institutions in Nigeria support fewer than one million people out of a total of 40 million potential borrowers. Furthermore, in Nigeria, total microcredit facilities account for just 0.2% of GDP and less than 1% of total credit to the economy.

Therefore, Islamic societies, NGOs, and researchers in Nigeria have introduced Islamic microfinance banks (IMFB) as a feasible alternative to conventional microfinance. As a result, some Islamic microfinance banks were established in some states with a notable effect (Onakoya and Onakoya 2013). Nevertheless, some factors still delay the development of Islamic microfinance banks to expand all over Nigeria. Notwithstanding that, the existing literature has projected that Islamic microfinance banks are a feasible solution to alleviate poverty in the country. Several studies have been conducted on how Islamic Microfinance Banks (IMFB) can eradicate poverty in Nigeria (Olalekan Yusuf and Hakeem Mobolaji 2012; Oluyombo and Ogundimu 2017; Sodiq 2010). Some also analyse the existing framework of Microfinance banks in Nigeria (Dogarawa 2012) Mhammed and Hasan 2012; Noibi 2011). At the same time, some explore how Microfinance banks in Nigeria can improve micro-credit facilities and financial inclusion (Michael and Sharon 2014; Oyekolade Sodiq and Taofiki Ajani 2019; Oyesanyaa and Salako 2018).

The Al-Hayat foundation is situated in Ogun State, a state in the southwestern region of Nigeria. In February of 1976, the old Western State was renamed Ogun State. The southern, northern, eastern, and western boundaries of Lagos State are Oyo and Osun States, Ondo State, and the Republic of Benin, respectively. According to the World Population Review, Ogun State has a population of 4,864,322, including more than 2 million Muslims (2019). Oyesanya (2013) investigates Islamic microfinance organisations in the Nigerian state of Ogun, with the Al-Hayat Relief Foundation in the lead. He asserts that Al-Hayat was established to advance the path of the Islamic economic system on a case-by-case basis and through various help packages by offering interest-free loans to its registered members. The story notes that Al-Hayat has expanded to six states in Nigeria: Ogun, Lagos, Osun, Oyo, Ondo, and Kwara. Furthermore, he asserts that there are forty branches with over 6,000 members.

However, Islamic Microfinance Banks have witnessed minimum development in Southwest Nigeria, with only one Islamic microfinance bank located in Ogun state (Al-Hayat Microfinance Bank). Even with the current numbers of microfinance banks in Nigeria, it is disheartening to note that the lack of growth in these institutions has made it very difficult to notice their impacts on alleviating poverty in Nigeria, particularly Ogun-state with over two million Muslims (World Population Review 2019). Furthermore, Nigeria has fewer than ten Islamic microfinance banks out of a total of 800 microfinance institutions. Additionally, Islamic microfinance institutions in Nigeria continue to have minimal or no growth. Consequently, financial exclusion, lack of awareness, mistrust, the high cost of operating a unit microfinance bank (due to CBN capital requirements), liquidity pressure, insufficient human resources, and a lack of Islamic banking-based financial technology are likely the root causes of this low development, amongst other factors. (Dogarawa 2012; Gumel et al. 2014; Onakoya and Onakoya 2014). In addition, some individuals still lack confidence in microfinance institutions due to several other financial concerns.

Therefore, this study investigates the operational obstacles impeding the growth of Islamic microfinance institutions in Nigeria. It also aims to provide solutions and recommendations to help Islamic microfinance banks restore the public's trust by expanding their financial inclusion through various Islamic micro-credit products as an alternative to conventional microfinance institutions.

2 Literature Review

According to the CBN's Revised Regulatory and Supervisory Guidelines for Microfinance Banks in Nigeria, a microfinance bank (MFB) is defined as any company licensed by the CBN to engage in the business of providing various financial services such as deposits, loans, payment services, money transfers, and insurance services at micro-levels for households of poor and low income and their microenterprises (Central Bank of Nigeria 2005, 2012). These financial services include credit, savings, micro-leasing, money transfer, and payment services. In addition, microfinance is distinct from other formal financial products by the small loans and savings collected with no collateral and easy processes.

Similarly, Nwanyanwu 2011 described microfinance as a relatively basic framework that has been proven worldwide to empower impoverished people and alleviate them out of poverty. It can be concluded from the above definitions that microfinance is a poverty alleviation mechanism that provides credit and other financial resources for poor, low-income households and SMEs. Microfinance assists the vulnerable in increasing their wages, developing sustainable businesses, reducing exposure to shocks, and creating jobs to accomplish the goal of poverty alleviation (Yakubu et al. 2018).

Microfinance is an ancient cultural institution in Nigeria, extending back several centuries. Traditional microfinance organisations provide loans to rural and urban low-income households. They consist mainly of informal Self-Help Groups (SHGs), rotating savings and credit associations (ROSCAs), accumulating credit and savings associations (ASCAs), and borrowing directly from friends and family. In addition, savings groups and cooperative organisations provide microfinance services. However, informal financial institutions typically have a restricted reach due to a lack of funds and other micro-financial products to give to their consumers (Egboro 2015; Nwanyanwu 2011; Olomola 2002; Oluyombo and Ogundimu 2017).

Seibel 2005 adopts a qualitative approach starting from the historical background of microfinance banks in Nigeria, development, and transformation, elucidating the government's impact on linking and converting all informal microfinance institutions into government cooperatives and formal institutions in the late'80s. The finding elaborates the linkage as a method with a long history in Nigeria, linking informal to formal financial organisations and self-help organisations to banks. Caxton-experience Idowu's "modernising" an Esusu in Ondo paved the way for broader replication in Lagos, where he had been elevated to the Registrar of Cooperative Societies status. Acha 2012 combined Esusu's rotating collecting and allocation of deposits with Ajo's doorstep savings collecting. Itinerant collectors paid by the bank gathered daily savings and deposited them as security for Esusu members' microloans. However, neither study explored the challenges affecting MFB's efficiency and performance during this early time.

Microfinance is regulated and overseen in Nigeria by the Central Bank of Nigeria (CBN), whose policy framework is specified in (Central Bank of Nigeria 2005) and updated by new regulatory guidelines (Central Bank of Nigeria 2012). A change to the supervisory and regulatory framework was implemented in (the Central Bank of Nigeria 2012) in an apparent effort to address noted flaws in the 2005 system. The updated framework is groundbreaking in its definitions of MFB target customer, micro-enterprise, and microfinance loan. Additionally, it covers acceptable and banned activities in an MFB and ownership and licensing requirements. The Board and Management of MFBs are also covered in fundraising, accounting, and associated problems.

Mohammed and Hasan (2008) conducted one of the earliest investigations on why conventional MFBs have not attained considerable financial inclusion and how Islamic MFBs may fill the space in the fight against poverty. The study used a qualitative methodology to depict Islamic MFB as a necessary alternative in the government's quest to alleviate poverty. The study concludes that the existing microfinance in Nigeria serves less than 1 million people out of 40 million, being the potential number that needs the service. Sodiq 2010 also finds that conventional microfinance institutions charge interest rates as high as 100% for lending and pay as low as 5% on savings and deposits. However, challenges such as share capital, awareness, and Islamic fintech hindering Islamic MFB from becoming a feasible alternative to conventional MFB need more study.

Al-Ameen 2016 studied the implementation of Islamic microfinance in Nigeria as a matter of equity and social justice, explaining why Muslims deserve an adequate Islamic microfinance system and how Muslims in Nigeria were marginalised from MF industries during the foundation and establishment of the section. The study discusses the need for an Islamic MFB for the Muslim community in Nigeria because several poor and low-income Muslims in need of microfinancing cannot benefit from the government microcredit schemes. After all, the loan conditions contradict their faith. Still, Operational challenges delaying Islamic MBF from achieving sustainable financial inclusion need discussion. Additionally, Dogarawa 2013; Ishaaq et al. 2020) critically review the NIFI guidelines and regulation and supervision of non-interest (Islamic) microfinance banks in Nigeria. The studies claim numerous provisions justify the application of Islamic banking and finance in Nigeria. However, these provisions need to be consolidated into proper legislation in a National Assembly Act that will adequately allow for the transparent operation of Islamic banking and finance.

Oyesanya (2013) examines Islamic microfinance organisations in Ogun State, Nigeria, particularly on Al-Hayat Relief Foundation. The study believes that Al-Hayat was established to encourage the provision of interest-free loans to its registered members, the application of the Islamic economic system on a case-by-case basis, and other support programmes. Al-Hayat has expanded to six states in Nigeria, including Ogun, Lagos, Osun, Oyo, Ondo, and Kwara, with over forty branches and a total membership of 6,000 people.

Adepoju and Oyesanya (2014) evaluate the poverty reduction techniques of the Al-Hayat relief foundation, highlighting a number of the organisation's accomplishments, such as the training of customers o Islamic financial literacy and the construction of the Yatwater plant. In addition, the establishment of Al-Hayat Microfinance Bank, the establishment of Al-Hayat Medical Centre Ltd, and several achievements in real estate allowed members to purchase plots of land by buying in bulk and allocating them to members with deferred payment, thereby contributing to the economic and financial activities of the country ("Achievements – AL-HAYAT RELIEF FOUNDATION," 2019). As a microfinance organisation, the study concludes that Al-Hayat Relief Foundation has been proactive in alleviating poverty among the Muslim population through several interrelated strategies. However, The Foundation needs more in-house study on all its investments and subsidiary (Al-Hayat micro-finance bank e.t.c.) on their challenges and prospects.

In 2014, the foundation established Al-Hayat Microfinance Bank Limited to extend its micro-credit facilities and expand its financial inclusion tactics beyond the organisation's members (Noibi and Adewole 2015; Salako and Azeez 2018). The major aim is to include non-NGO Muslims and non-Muslims in Ijebu-ode, Ogun State, and beyond in their mission and desire to alleviate poverty. Several studies, such as Adepoju and Oyesanya (2014), Bilqis (2012), and Salako and Azeez (2018), have identified and predicted numerous bank initiatives to promote sustainable financial inclusion in Ogun State. However, there have been minimal studies on the hurdles and difficulties limiting Al-Hayat Microfinance Bank (AMFB) from reaching its primary aims after 8years of existence (Salaudeen and Zakariyah 2022). This study seeks to analyse and investigate these obstacles and to suggest viable solutions.

3 Conceptual Framework

This study examines operational challenges thwarting Islamic microfinance banks' sustainable financial inclusion, employing Al-Hayat microfinance bank in Nigeria as a case study. Previous studies have observed that Islamic banks' challenges are operational. The following diagram illustrates these challenges and opportunities for Islamic Microfinance in Nigeria (Fig. 1).

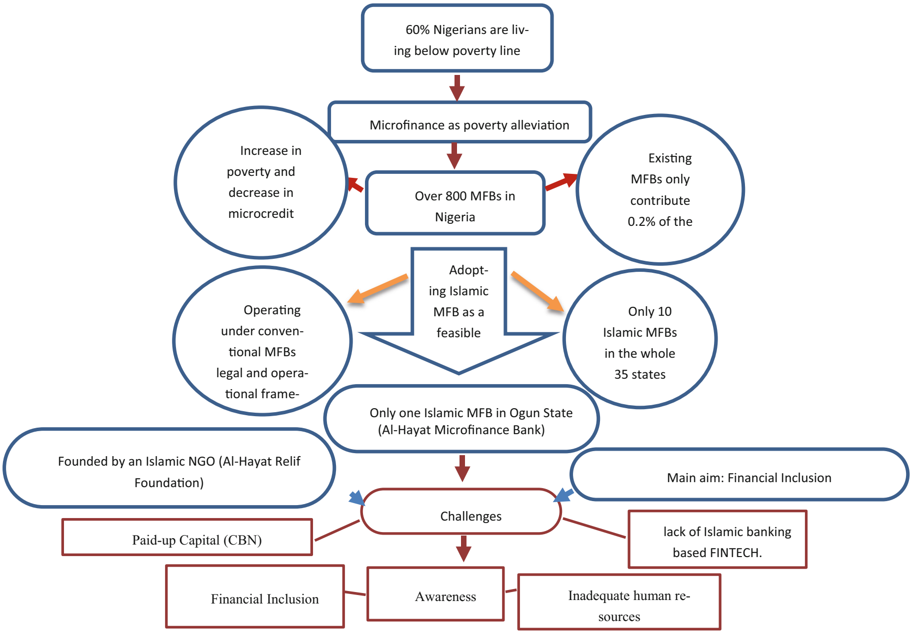

Fig. 1. Conceptual framework on IMF's challenges in Nigeria.

4 Methodology

This study explored and fulfilled its objective through qualitative research techniques and was majorly based on primary data collection due to the limited research on Nigeria's Islamic microfinance bank. Therefore, a purposive non-probability sampling technique is adopted. For data collection, a semi-structured interview was done. In this instance, five AMFB members were chosen, two from the board and three from the staff. Each informant got an email with a consent letter and recommended interview questions, to which they replied with their desired interview day and time. All respondents' identities were encrypted, and English was the discourse language. All conversations were recorded and fully transcribed. In addition, data reduction, integration, and visualisation stages were adequately applied to analyse data efficiently (Table 1).

Table 1. Participant's profile: ID, position, educational background, and level.

Participants' id	Position at AMFB	Educational background	Level of education
SH1	Founding Member/Board member	Islamic studies	PhD
SH2	Board member	Islamic studies	PhD
BS1	High ranking officer	Accounting	MSc
BS2	Credit facilitator	Computer science	MSc
BS3	Marketing officer	Marketing	BSc

Source: Researcher's

5 Finding and Discussion

Several challenges impeding Al-Hayat MFB's financial inclusion, including operating licence, regulatory and supervisory framework, misperception, and Islamic fintech, as determined by the results originated from the analysed data.

5.1 Share Capital (One Unit MFB)

The Central Bank of Nigeria categorises Non-Interest Microfinance Banks (NIMFBs) into three categories according to their paid-up capital. This determines how many branches the bank can open, the capacity of its outreach, product and credit facility it can offer.

The CBN indicated that the guideline (Central Bank of Nigeria (CBN) 2017) would authorise three types of NIMFBs: a Unit NIMFB, which would be permitted to operate in a single location and would be required to have a minimum paid-up capital of N20 million. According to the amended criteria, the unit NIMFB is authorised to have a single branch outside the head office within the same Local Government Area, so long as it has at least N20 million in accessible free funds and meets the minimum prudential standards. AMFB belongs under the NIMFB category because it began with N20 million upon its inception.

BS1 mentioned AMFB's share capital as one of their significant challenges:

> *"Firstly, I want to say something that is hindering us: fund and share capital. We started with just N20 million because that was the requirement, but Al-Hayat is just trying its best to make it, but we need funds for us to be able to promote this Islamic finance. We have not attended to some applications because of funds, so funds are vital because we are limited."*

The second classification is the State NIMFB, which is permitted to operate in a single state or the Federal Capital Territory (FCT) and must have a minimum paid-up capital of N100 million. The CBN indicated that this category will be authorised to open branches within the same State or Federal Capital Territory, provided the availability of unrestricted funds and prior to CBN authorisation of new branches or cash facilities.

The third kind, the National NIMFB, is permitted to operate in all federation states, including the FCT, with a minimum paid-up capital of N2 billion. This category is authorised to open branches in all federated states and the FCT, subject to the availability of free currency and prior approval by the CBN for each new branch or cash centre.

However, the Central Bank of Nigeria may periodically revise the mandated minimum capital requirements for each category of NIMFB (Table 2).

Table 2. CBN's categorisation of NIMFB

Category	Capacity	Branch	Capital (Naira)
1	A Unit NIMFB	Local government	20 million
2	State NIMFB	Single-state	100 million
3	National NIMFB	All states	2 billion

Source: Researcher's (Deduced from CBN's guidelines)

AMFB credit and financing product facilities are limited to their minimal capital share. The bank's determination to extend its outreach and open more branches. However, according to the revised guidelines, any Unit NIMFB may convert to a State NIMFB by surrendering its license and obtaining a State NIMFB license, subject to compliance with the licensing conditions specified in the guidelines. Likewise, a state NIMFB that wishes to convert to a National NIMFB must have at least five (5) branches scattered across the State's Local Government Areas. "This guarantees that the State NIMFB develops the required experience to operate a National NIMFB. Additionally, it will be compelled to renounce its State NIMFB license and comply with all other licensing requirements specified in the guidelines," the CBN stated.

In the process of expanding and opening more branches, SH2 affirmed the bank's effort toward this:

"The next thing for our expansion plan is share capital, as at that time (during the licencing), the Central Bank of Nigeria was requesting 20 million naira for share capital for a unit microfinance bank, and from Al-Hayat, we brought 30 million to start. This 30 million, 90%, belongs to Al-Hayat foundation branches and individual members. Insha Allah, before next year we will have raised N100 million; after that, we want to get that license, a full state-level Islamic microfinance bank."

AMFB are on the verge of getting both an Islamic licence and a state-level NIMFB. However, when asked concerning these encounters, if AMFB has reached out to other sources, specifically international Islamic financial institutions such as Islamic Development Bank (IsDB), Islamic Financial Services Board (IFSB), International Islamic Liquidity Management (IILM), for assistance and support. SH1 responded.

"We believe that before you ask people for help, you have to help yourself out first, and immediately we get that Islamic license, we are good to reach out, we are waiting to have the license, and that is why we have gotten enough share capital

for the one unit Islamic microfinance bank and immediately we get the license we can now reach out to them."

Furthermore, BS3 stated that AMFB has been familiarising and getting in touch with several international bodies:

"Firstly, we have attended several international conferences with Institutions from Malaysia, Pakistan, and the likes, and approached IFSB that we needed support. However, we are currently addressing our in-house issues such as license, adequate staff, e.t.c. Insha Allah, before next year we would have raised N100 million, and after that, we want to get that license, a full Islamic microfinance bank, from there we can reach out to other cooperation about what we are doing that they should assist us."

5.2 Islamic Bank Operational License

According to (the Central Bank of Nigeria (CBN) 2017), Non-Interest Islamic Financial Institutions (NIIFs) must be licensed in line with the CBN's current standards. Any application for a license should be supported by documentation of the promoters of the proposed institution entering into a technical agreement with an established and respected Islamic bank, financial institution, or Islamic cooperation such as the Al-Hayat relief foundation. The agreement shall expressly define the roles of the two parties and shall be in effect for not less than three years from the licensed IIFS's commencement of operations (Dogarawa and Uthman 2019). This clause guarantees that licensed NIIFs receive technical assistance and experience from existing Islamic banks or cooperation to create such an institution since such expertise may lack the required skills.

The lack of access to an Islamic operating licence and processing setback has been the most significant hindrances for Islamic financial institutions. According to the Central Bank of Nigeria's (CBN) Guidelines for Regulatory and Supervisory Of Non-Interest Microfinance Banks, published in 2017: "No individual, corporate, or their subsidiaries shall own or control any non-interest microfinance bank (NIMFB), except with approval and licence from the Central Bank of Nigeria." However, obtaining an Islamic licence (Non-interest) is not feasible as a conventional licence. According to SH1 (Stakeholder), one of the foundation's founding members (Al-Hayat Relief Foundation) established the microfinance bank with the primary objective of poverty alleviation and financial inclusion among and beyond the foundation through Islamic microcredit products. SH1 gave the following details during the interview on the licence issue:

"I'm one of the founding fathers of Al-Hayat Relief Foundation, an organisation that gave birth to Al-Hayat microfinance bank limited. In history, the Al-Hayat relief foundation started about 24 years ago, and right from its inception, it was part of our aim and objective to establish an Islamic bank, and that is our goal; we started thinking about how to achieve our goal. We know that our capacity cannot go for a commercial bank, so we decided to go for a microfinance bank, but it should be an Islamic bank; that was our aim and objective. So when we set out for the ambition, I was appointed committee chairman to establish a microfinance bank, the committee of seven. These people are the seven-man committee set up

by the Al-Hayat relief foundation, and they were working seriously on how to get the licence for operation. So the first thing we did was SWOT analysis to analyse the capability of the al-Hayat foundation at that time to establish a bank, but Alhamdulilah, after a year, we achieved it. Although we could not attain an Islamic microfinance bank license when we tried out all possible means, we could not move forward due to some political and social stigma. A suggestion came from a member of the CBN licencing committee - o you guys take the conventional license and operate the Islamic banking inside, they will not disturb you once you get the license. Whatever you operate will be on your own- and finally, we decided to go for the conventional license of a microfinance bank."

The committee followed the advice, applied for the conventional licence, and obtained it quickly. As a result, Al-Hayat Relief foundation got its Islamic Microfinance Banks licenced in August 2013 and launched operationally in February 2014. The dearth of financial inclusion of the bank starts with its foundation of operating Islamic microfinancing with conventional licence. The potential to achieve the bank's primary objectives is limited due to the contradiction of the license. All other themes of this study are interrelated to licencing issues, from misconceptions issues to limited Islamic financing products. BS1 informant also gave a recent update on the steps and efforts taken to change the licence to an Islamic licence:

"Although we start a bit rough and tough with conventional microfinance bank license. However, Alhamdulillah today, we have an Islamic non-interest microfinance bank for which we are struggling to have the Islamic certificate and should be licensed before the end of the year, Insha Allah…"

The statement from BS1, a high-rank bank staff, confirms that AMFB has not conceded nor given up on its ambition to Islamise its license after 7years of operation with a conventional license.

5.3 Misconceptions About Islamic Financial System

In Nigeria, there are several misconceptions among Muslims about Islamic Finance. Moreover, non-Muslims have faith-based biases and lack clarity about the Islamic banking system, which hinders their acceptance.

5.3.1 Islamic Finance is Only for Muslims

Islamic finance is a way to generate money through wealth creation and distribution. Non-Muslims are not prohibited from utilising Islamic Financial services or owning Islamic Financial institutions. While Islamic Finance is founded on the principles of Islamic law, its quality promotes social justice for all, making it appealing to Muslims and non-Muslims alike. SH2 stated:

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

In contrast, Citigroup, HSBC, Standard Chartered, and BNP Paribas are among the most notable financial organisations that provide Islamic financial services. This indicates that the ideals of Islamic Finance are not exclusive to Muslims. Moreover, in Nigeria, several existing conventional banks, such as Sterling Bank and Stanbic IBTC, have established an Islamic banking window, which attracts a growing number of non-Muslim investors attracted by the favourable returns offered by Islamic Finance services.

5.3.2 Islamic Financial Institutions (IFI) Are Charitable Organisations

SH1 expressed concern over several customers' misconceptions regarding AMFB as a charity organisation:

> *"Another point is the misconception about Islamic banking generally. Many people think that you are going there for a free fund when you go to an Islamic bank. They don't intend to repay, and these are the major problem we are facing internally."*

Islamic finance is based on wealth accumulation and profit-driven like other businesses. Islamic Financial Institutions are accountable to their shareholders and investors, who have invested money in the firm to obtain a satisfactory return, which the institution must provide in accordance with Shariah principles. As previously said, Islamic Finance is not a capitalist-driven financial system. In Islam, built-in mechanisms encourage Islamic Financial Institutions to engage in corporate social responsibility, such as the required Zakat, Waqf, and optional Sadaqah (donations), which may be used to aid in societal development.

5.3.3 Islamic Finance is an Islamisation Project

Several Islamic-oriented, good initiatives such as Sukuk, Islamic banks, and OIC membership have been seen as a mission to Islamise Nigeria by non-Muslims. However, Islamic finance comprises less than 1% of the world's financial system. Additionally, over 1.5 billion Muslims worldwide, making them much too diverse to share a unified objective. Muslims worldwide come from a variety of races and cultures. It is almost unlikely that such diversity could form a single administration with the common objective of world dominance. Islamic finance can be compared to halal foods, which have existed for centuries, are available globally, even in non-Muslim nations, and are enjoyed by Muslims and non-Muslims. Islamic Finance should not be seen differently since the availability of halal food has not resulted in the extinction of non-halal foods or the establishment of global domination.

5.4 Islamic Fintech

Fintech is a relatively new notion that refers to technology facilitating financial services, operations, business models, and customer engagement. In contrast, financial inclusion refers to ensuring the accessibility, availability, and use of formal financial services (Kovid et al. 2022). Inadequate Islamic financial technology continues to be a serious concern for all Islamic financial institutions operating in Nigeria. They are all propelled forward by established fintech platforms to compete with conventional financial institutions in the market (Zakariyah et al. 2022). However, these platforms expose all IFIs Sharia non-compliance risk, excessive third-party charges and high maintenance costs.

AMFB staff and stakeholders highlighted fintech concerns, and the bank is now providing online services to consumers through a third-party platform named Bank One. This exposes them to an extra service charge and the possibility of engaging with a consumer via non-compliance. SH2 identified fintech as a significant AMFB challenge::

> *"Another challenge we are facing is applications software for banking services. In other Islamic countries that are making use of Islamic fintech, they have the capacity, unlike us, that we are using fintech which is not Islamic."*

Additionally, BS2 expressed concern about the compliance of the fintech they are currently utilising and multiple client complaints regarding the third-party traditional software application's high charges:

> *"as I said earlier, the software we are using is not 100% compliant with what we are doing, so we receive calls from people accusing us of things that are not Islamic."*

Furthermore, BS3 explained AMFB's inability to acquire an Islamic fintech platform for bank services:

> *"What I will be adding is the invalidity of affordable Islamic banking software, so when we are talking of the fintech, we are talking about money, and even commercial banks that are being licensed, they still have one or two issues concerning this software talk less of Islamic microfinance bank. we did not have that huge amount of money to develop software, so we just had to ride on a third party, and "bank one" was developed for the conventional banking system, but we have to manage and pave our way through."*

Nonetheless, AMFB is pursuing a full Islamic microfinance license, intending to adopt an Islamic fintech and phase out their present conventional fintech platform, Bank One. However, the worry continues to be the absence of an Islamic fintech company in Nigeria with which to partner.

5.5 Awareness

The dearth of Islamic Financial Literacy (IFL) remains a significant challenge to global Islamic finance industries, specifically in Africa, where most Muslims cannot differentiate the Islamic banking system from the conventional system. How Islamic banks work, the products, requirements, and all are still in infancy in Nigeria. According to this study, the lack of awareness in Nigeria's IBF industry is two-level consumer and government awareness. Consumer awareness "is a process of knowledge, persuasion, decision, and confirmation before consumers are ready to use a product or service." (M. Saad 2012).

This implies that clients must be aware of its existence, function, and purpose for them to accept and utilise a product efficiently and successfully.

All of the interviewees cited awareness difficulties as a formidable obstacle, making awareness a common theme. Therefore, BS1 made the following clarification:

"one of the challenges we are facing as an Islamic bank in Nigeria is the wrong perception; as you said earlier, there is no awareness to people by the government, and coming down to the Islamic organisations and community, it is a problem. Without the perception of IBF in Nigeria, there is no way we can grow, so perception is a big problem. So we all must unite and continue creating awareness; maybe the government can also have orientation and advocate awareness."

Furthermore, SH2 said:

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

BS3 did give some opinions on the duty and responsibility of AMFB to tackle the low level of awareness among non-Muslims and Muslims in Ijebu Ode about the Islamic banking system:

"It is our duty, not only to finance but also to educate people. We cannot progress until we have the means, capability, and ability to educate these people, and now we have more Christian patronising us than Muslims, but once we have the power and ability to educate people about what we are doing and this is the benefit, people will patronise us."

Finally, BS2 detailed the efforts and initiatives done by AMFB to address the Awareness obstacles. First, AMBF explains to Islamic spiritual leaders, academics, and Imams how they might use various organisations and congregations to advance Islamic financial literacy:

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

In its objective to expand the IBF market and encourage current traditional banks to adopt the IBF window at their branches, the Central Bank of Nigeria should also embark on the journey to employ more IBF experts and provide adequate training modules at the Islamic finance unit of the CBN, to train its staff and supervisors.

5.6 Limited IBF Training Institutions

Currently, Nigeria has only one university that offers Islamic banking and finance at the master's and doctoral levels (none at the degree level): Bayero University Kano (BUK) in the country's northern area. However, AMFB is located in the country's southern region, more than 900 kms south of Kano. Nigeria's developing Islamic banking industry desperately needs a new player and fresh graduate to fill the void of professionalism. Other universities in other parts of the country should provide degrees in Islamic finance. AMFB has had extensive collaboration with BUK via physical and virtual sessions despite the distance. According to SH1:

> *"We have an excellent relationship with the triple IBF (The International Institute of Islamic Banking and Finance, Bayero University, Kano). We have invited them twice to Ijebu Ode."*

Although several Islamic finance institutes, such as the Institute of Islamic Finance Professionals in Lagos and the Certified Islamic Banking and Finance Institute in Ibadan, have been established in the country's southern region to train Islamic financial specialists and professionals. However, training with these schools will incur additional costs for AMBF, which they can avoid if they hire people with IBF experience. BS3 testify to this with the following statement:

> *"One other thing I will say is the unavailability of an Islamic institute nearby for a bank to have a well trained and professionals working in the bank if the bank actually have an institution very close by. But it is quite unfortunate that most of these institutions are actually in the north, so if you have to get the full required training, you have to go to the north or travel out of the country."*

In conclusion, Nigerian universities offering finance, accounting, economics and Islamic studies should be urged to contribute their quota to the growth of Islamic banking and finance by offering Islamic finance-related courses and degrees to produce more IBF players and professionals in the industries.

6 Conclusion

Islamic microfinance is a new emerging discipline resulting from conventional microfinance theory and practice system constraints. These issues resulted from the demand of the Muslim countries and communities because Islam forbids taking and offering interest-bearing loans, Garar and Maysir. Alternatively, Islamic microfinance converged with conventional microfinance to eradicate poverty in Nigeria. Therefore, the current study investigated the challenges affecting Islamic microfinance banks, the bank's sustainability, and its relevant financial inclusion opportunities in Nigeria. In addition, the study proposes feasible solutions and modifications to Islamic microfinance's existing issues. The primary advantage of the Islamic microfinance model is that it satisfies both the economic and religious criteria of adhering to Shari'ah's financial guidelines. However, in Nigeria, financial inclusion projects of Islamic microfinance banks are hindered by the legal structure (i.e., Islamic operating licence), lack of knowledge, and misperceptions regarding Islamic financial institutions. Similarly, Islamic microfinance confronts operational challenges associated with Share capital, suitable Islamic financial technology for retail services, easy access for the unbanked, and human capital.

Regulators and policymakers must seek to adjust the Nigerian banking standards and regulatory framework to increase Nigeria's financial inclusion and accommodate the efficient functioning of Islamic microfinance banks. This research can assist regulators who may not be familiar with Islamic finance regulations and concepts. Nonetheless, Nigeria's Islamic banking industry will not be able to compete with the existing conventional banks unless the regulatory structure is amended to incorporate Islamic financing into the Nigerian landscape. Islamic financial institutions in Nigeria must prioritise Shari'ah compliance throughout all operations, including licensing, product, service, and technology. Although Nigeria's regulatory climate is inhospitable to IFIs, IFIs can learn from Malaysia how to adapt and grow Islamic finance in a conventional context. Additionally, IFIs in Nigeria should embrace innovative financial inclusion strategies such as micro Takaful, crowdfunding, and product integrations. Finally, IFIs should improve their recruitment practices and hire more Islamic finance specialists and graduates rather than relying on conventional staff training.

Lastly, the Muslim population in Nigeria is substantial, and their need for Islamic retail banking products to fulfil their religious commitments is essential. Therefore, the Nigerian government is primarily responsible for satisfying the needs of its people. Nigeria can emulate Malaysia, Turkey, the United Arab Emirates, and Indonesia, among others, which have effectively adopted Islamic banking and finance, innovative Islamic Fintech platforms, Islamic social finance, and Takaful as methods for addressing and eliminating financial exclusion in their respective nations.

7 Limitation and Reccomendation

No customers were invited to the interview, nor were all AMFB stakeholders and employees. Consequently, some obstacles and concerns facing AMFB and its consumers may have been neglected. In addition, this study concentrated on one Islamic MFB in Nigeria's southern region. However, some have been established in the north, which is not covered by this study. Similarly, Al-Hayat microfinance bank continues to be owned by Al-Hayat Relief Foundation, an Islamic organisation based in Ijebu Ode. Therefore, this study excludes the connection and functional tie between the foundation and the bank. However, the majority of bank clients are foundation members. In addition, the scope of this study was limited to a few regulatory and supervisory issues and operational difficulties; public awareness and a few legal issues were mentioned but not thoroughly studied.

In addition, this study recommended some initiatives to the Nigerian financial regulators, policymakers, Islamic financial institutions in Nigeria, the Nigerian government, and the Muslim community. First, the Nigerian government is the first body that must take action to meet the demands of its population. In addition, the Nigerian government can learn from Malaysia, Turkey, the United Arab Emirates, and Indonesia, all of which have successfully implemented Islamic banking and finance, Islamic social finance, and Takaful as tools for addressing and reducing financial exclusion in their respective countries. Secondly, Islamic financial institutions in Nigeria must prioritise shariah compliance throughout all aspects of their operations, including licensing, product, service, and technology. Finally, regulators and policymakers must strive to amend the Nigerian banking standards and regulatory framework to sustainably enhance the financial inclusion of Islamic microfinance institutions in Nigeria. Moreover, this investigation was limited to a single Islamic financial organisation. However, future academics will be able to do comparative evaluations of all existing Islamic financial institutions to determine their growth and achievements.

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