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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. © 2023, The Author(s), under exclusive license to Springer Nature Switzerland AG.

Author Keywords

Al-Hayat Microfinance Bank; Financial inclusion; Islamic microfinance; Nigeria; Poverty alleviation

Index Keywords

Finance; Al-hayat microfinance bank, Financial inclusions, Gross domestic products, Islamic microfinance, Microfinance, Nigeria, Operational challenges, Poverty alleviation, World bank; Sustainable development

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