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Contributions of the Islamic Finance in Alleviating Poverty among Small and Medium Entrepreneurs in Borno and Yobe State, Nigeria

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Abstract: *Micro-finance involves providing credit without collateral to the marginally poor. The traditional micro-finance in Nigeria suffers from high default risk, skewed distribution, and non-conformity with the popular beliefs of the majority and with the challenges faced by the conventional microfinance institutions particularly operating in a Muslim dominated society like Borno and Yobe Sates This paper examined the Contributions of the Islamic finance in alleviating poverty among Small and Medium Entrepreneurs in Borno and Yobe State,. Nigeria Questionnaire was administered on targeted population of SMES in Borno and Yobe States .Descriptive and inferential analysis were used to ananyse the data obtained. The analysis revealed that Islamic micro finance has significant influence in Provision of start-up fund to SMEs, expansion of SMEs, increase in the number of SMEs, improvement in customers' household income, improvement in customers' health care status and children education SMEs in Maiduguri Metropolis.*

Keywords: *Islamic Finance, Poverty alleviation, SMEs Growth, Star up Capital*

Introduction

Poverty has become a major socio-economic problem in most countries of the world especially developing countries. Many national governments in Africa have tended to treat poverty as a purely economic problem that could be overcome by means of carefully planned and implemented economic development programs. But such approach has often led merely to increase in average incomes and gross national product (GNP) but has not led to visible improvements in the living standards of the masses of the people.

Among the measures taken by the government in Nigeria is the establishing of micro finance banks in order to provide collateral free credit access to the poor. The microfinance and supervisory framework issued by the CBN in 2005 sought to encourage the development of SMEs and empower low income groups in Nigeria. Notwithstanding the modest achievements the poverty level in the country remains daunting such that majority of the economically active poor population remain financially truncated and excluded, majority of the micro entrepreneurs do not have access to credit thereby hindering economic growth and development. Indeed, as indicated in the Revised Microfinance Policy; a large percentage of Nigeria's population are still truncated and excluded from financial services

Evidences has shown that many potential clients of microfinance in the North categorically reject the products of conventional micro finances due to non-compliance to Islamic principles, charging high fixed interest rates, credit diversion, credit rationing and non-conformity with the Islamic faith of the majority population. Thus, the need for a finance system that conforms to the Islamic faith.

Islamic finance is a financial relationship involving entrepreneurial investment which is subject to moral prohibitions. It is based on principles that prohibit risk taking, interest earning, sinful activities, gambling, speculative trade and money lending to customers. It believes in trading based on real goods and services and a reward-sharing contract. It also focuses on providing an ethical financial system with a motive of wealth redistribution, which will have a long term effect on poverty alleviation (Hayat, 2009). Islamic microfinance is basically a microfinance that employs Islamic financial principles in providing financial services to the poor.

The Islamic approach to poverty alleviation ideally involves comprehensive approaches including increasing income levels with pro-poor programs, achieving an equitable distribution of income and providing equal opportunities for all social segments. It has globally achieved great accomplishments over the last 30 years. It has shown that poor people can be viable customers and that Islamic microfinance can create strong institutions which focus on them. Although many studies have examined the contributions of the conventional Micro-Finance Banks (MFBs) on poverty alleviation in Nigeria, but none have examined the contributions of the Islamic finance in alleviating poverty among Small and Medium Entrepreneurs in Borno State, Nigeria. Specifically, this paper seeks to:

i. examine the roles of Islamic finance towards the dispersion of credit among Small and Medium Entrepreneurs in Borno and Yobe State,;
ii. assess the extent to which Islamic finance institution has successfully helped to improve the standard of living of Small and Medium Entrepreneurs in Borno and Yobe State,
iii assess the impact of Islamic finance on the growth Small and Medium Entrepreneurs in Borno and Yobe State,

Literature Review

The Concept of Islamic Micro-finance

Islamic finance as defined by Haruna (2017) is a financial relationship involving entrepreneurial investment which is subject to moral prohibitions. Islamic finance is based on principles that prohibit risk taking, interest earning, sinful activities, gambling, speculative trade and money lending to customers. It believes in trading based on real goods and services and a reward-sharing contract. It also focuses on providing an ethical financial system with a motive of wealth redistribution, which will have a long term effect on poverty alleviation (Hayat, 2019)

The concept of banking services in an Islamic way is an innovative practice in the Nigerian context. Nagarajah, (2009) stated that the idea begins in 1998 with operation of unit for Shariah compliant transaction known as non-interest banking (NIB) service by the then Habib Nigeria Bank (Now Bank PHB). Ehigiamusoe, G. (2011), pointed out that Nigerian banking system evolved as a result of very wide reforms under taking by the Central Bank Nigerian (CBN).

Similarly, from the beginning of the transformations, the policy derive is not only targeted at positioning and the growth of the banking and other financial institutions to play key roles for the development of other sectors of the economy, it also directed at persuading operational efficiency and enhancement. The mergers and acquisitions were conducted under the leadership of Charles Soludo as CBN Governor while the capital base of these banks has been amended (Adeleke 2021). The microfinance that operates a sharia transaction in Nigeria comprises of Tijarah microfinance which is noninterest microfinance in Bauchi State, North Eastern Nigeria;36 sharia based microfinance in Kano State such as Albasu, Gaya, Madobi, Bichi, Gwarzo in the North and Western part of the country such as Al-Hikmah microfinance in Lagos State, South-Western part of Nigeria and many others. These mentioned microfinances were engaged in the provision of financial services to the less income customers such as operators of micro-enterprises, fishermen, women, peasant farmers, youths and others (Al-Jarhi 2016).

Islamic microfinance engaged in the provision of financial product and services such as: MUSHARAKA is seen as a business in which both partners agreed to contribute labour and capital and share the profit based on the pre-agreed ratio, though loss will be based on the amount of money contributed. MUDARABA is a business partnership in which one will provides capital to the other person so as to use his labour and experience to invest the money in commercial transactions. The business come from the side of the first partner known as rabbulmaal and the management will be conducted by the second partner called mudarib. Also, profit sharing is based on pre-agreed sharing ration while loss will be left to capital provider known as rabbulmaal except when there is concrete evidence of misconduct, negligence and breach of contract mudarib (manager). MURABAHA is a sale contract that contains transaction through commodity purchase by the bank on behalf of the customer and letter resale the product to the letter on cost-plus-profit basis. And the bank will make it well known the cost and profit margin to the buyer.

The Concept of Poverty

The World Bank (2004) defines poverty as a condition where the basic human needs such as healthcare, education, food, water, shelters are not available. It further states in its 2002 publication that a person is deemed poor if his/her consumption level is less than US$1 per day. Dogarawa (2007) reports that Nigeria is, rated among the world's top 20 poorest nations. with high level of poverty, despite the amount of crude oil, natural gas and other natural resources the nation produces. As the decades have gone by, the number of people living in poverty continues to increase. However, the rate of poverty in Nigeria has dropped from 35.2% of population in 2010/2011 to 33.1% in 2012/2013, according to the World Bank country manager at the Nigeria Economic Report (2014). The causes of poverty have been ascribed to several factors. For Nnadi (2008), it is the impact of globalization on the Nigerian economy through a foreign direct investment decline and unemployment. Unfortunately, sumarising the Development Indicators report of the World Bank for Africa, Mohammed et al (2014) surmised that the hitherto veritable gateway to employment (education) is no longer certain. Corruption, defined by Transparency International as the abuse of power entrusted officially for private benefit has been fingered as yet another culprit (Ozoh, 2012). The lack of diversification of the economy resulting on over dependence on Oil, the lack of capital and the labour resources under-utilization of during the farming season are others (Igbuzor, 2004), The combination of these various complex poverty contributing factors also include negative and / or low economic growth, defective macroeconomic policies, lacuna in the labour market resulting in limited job growth, low productivity and low wages in the informal sector, and a lag in human resource development (Olowa, 2012).

Roles of Islamic Microfinance in Micro, Small and Medium Enterprises (MSMES)

Islamic microfinance has several major roles in micro, small and medium enterprises. Kefas (2006) submitted that Islamic microfinance was often considered one of the most effective and flexible in the fight against global poverty. It is sustainable and can be implemented on a massive scale necessary to respond to the urgent needs of the world's poorest people. Microfinance has also filled up certain gaps which the main stream banking has neglected in serving the people, particularly the poor. The nature of the gaps and examples of how such gaps have been filled by the microfinance institutions have been well documented.

Awojobi and Bein (2011) attest to the efficacy of the micro finance schemes in all the Middle East nations. The schemes have successfully enhanced employment opportunities, improved social and economic condition of the target, and raised real wages. These findings are also supported by Faisal (2017) who reports the comparative advantage of Islamic finance over the conventional alternative. Islamic financial products and services are available to all regardless of religious belief. Islamic microfinance products include *Salam* for financing agriculture and *Bay al-Muajjal-Murabahah* of providing working capital (Adams ,2020).

There are many models in operation. Alhabashi (2015) identified three main instruments Islamic Micro Finance (IMF) models. In the profit and loss model (*Mudaraba*), entrepreneur manages the project using the funds provided by the financial institution who bears the possible loss. In the *Musharka* model, a joint venture arrangement exists wherein both the entrepreneur and financial institution contribute to the capital and sharing of any profit or loss. In the *Murabaha* scheme, the bank procures the products and sells them to micro entrepreneur and with a markup.

The Islamic microfinance can contribute to poverty alleviation through increased income and standard of living, empowering the poor, developing the business sector, developing a parallel financial sector, improving quality of poor's life, and also improving health care and education (Kessy and Urion, 2006; Gebru and Paul, 2011; Okpora, 2010; Shirazi and Khan, 2009 and Durrani et al, 2011). Islamic microfinance is the provision of financial services, such as non-interest loans, savings, insurance, money transfers, and payments facilities to customers. It can also be used for productive purposes such as investments, seeds or additional working capital for micro enterprises. On the other hand, it can be used to provide immediate family expenditure on food, health, education, housing and health. Islamic microfinance is an efficient and effective way for poor people to increase their economic security and thus overcome poverty. It enables poor people to manage their limited income, reduce the impact of economic obstacles and increase their assets and income (Raza, 2017).

Dasuki (2006) recommends the group-based lending scheme and Ibn Khaldun's concept of *Asabiyah* which as a unifying force is analogous to the modern concept of social capital. In the *Qardhasan* savings/lending model, the loan depositor receives saving points instead of interest for the size and duration of the funds provided. After achieving a sufficient number of those points, the group member should be eligible for taking out a loan himself. The model which is a form of cooperative finance practice has been professionally applied by non-Muslim banks JAK Medlem, Nordspar (Sweden and Denmark) and by Strohalm Foundation (The Netherlands). The Islamic microfinance banks needs to institute measures that guarantee loan repayment. In the event of default by a group member, De Aghion and Morduch (2005) recommend that in line with the practice of the Grameen bank, such defaulter and the other group members will have to quit their membership of the bank. The other group members are likely to repay the loan on behalf of the defaulter since they would want to retain their beneficial membership of the bank. In effect, they are would, in the face of possible collateral liability be careful in admitting a group member. This is useful to micro-lenders in overcoming "adverse selection" problem.

Methodology

The study was conducted in Borno and Yobe States, it based on a survey of SMEs in the Study area data was collected through a structured questionnaire measured on five point likert scale purposive sampling to select SMEs patronizing the Islamic micro finance loans in Borno and Yobe States. From the books of the banks, The SMES were stratified by the average size of last loan taken and was divided into three categories: (a) Low loan volume, (b) Medium Loan volume, and (c) High Loan volume customers. Each of the categories (a) through (c) will be translated to actual Naira value. Low loan volume was bench-marked at a ceiling of N27,579, medium loan volume at a ceiling of N35,602 and the last category at any amount above N58,227. Kcrecia Morgan was used to determine sample size of 20 staff of Jaiz Bank and 175 SMES in Borno and Yobe States. Both descriptive and inferential statistics were was used data analysis

Model Specification

The study employed multiple regression analysis to test hypothesis. The multiple regression model is defined as:

$$Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \cdots \beta_n x_n + e_i$$

Where

$Y =$ Dependent variable

$x_{1-}x_n$= Independent variables

β_0 = Intercept of the regression line

$\beta_{1-}\beta_n$ = Slope of the regression line

$e =$ Error term

For hypothesis 3

GRT= Growth

PSF= Provision of start-up fund

PR= Poverty reduction

PFIL= Provision free interest loan

The multiple regression model for this study is defined as:

$$Y = \beta_0 + \beta_1 GRT + \beta_2 PSF + \beta_3 PFIL$$

Results and Discussions

Table 1: Roles of Islamic Finance towards the Dispersion of Credit among SMES IN Borno and Yobe states

S/N	Statement	A	SA	UD	DA	SDA
1	Poverty reduction among SMEs	75(42.9%)	**87(49.7%)**	1(0.6%)	11(6.3%)	1(0.6%)
2.	Provision of seed money to SMEs	82(46.9%)	**91(52.0%)**	1(0.6%)	1(0.6%)	0(0.0%)
3.	Business training and social rehabilitation	57(32.6%)	**74(42.3%)**	21(12.0%)	12(6.9%)	11(6.3%)
4.	Promotion of socio-economic conditions and general welfare of SMEs	**66(37.7%)**	63(36.0%)	5(2.9%)	31(17.7%)	10(5.7%)
5.	Provision free interest loan to SMEs	**89(50.9%)**	52(29.7%)	4(2.3%)	18(10.3%)	12(6.9%)

Source: Field survey, 2022

Table 1 shows the roles of Islamic finance towards the dispersion of credit among SMEs in . Item one above, shows that 42.9% of the respondents agreed with the statement, 49.7% strongly agreed, 0.6% were not sure, 6.3% disagreed and 0.6% strongly disagreed. This means that poverty reduction among SMES is one of the roles of Islamic finance towards the dispersion of credit among cattle breeders in Maiduguri Metropolis. Item two 46.9% of the respondents agreed with the statement, 52.0% strongly agreed, 0.6% were not sure, 0.6% disagreed and 0.0% strongly disagreed. This implies that provision of seed money to SMEs is one of the roles of Islamic finance towards the dispersion of credit among SMEs in Borno and Yobe State. From item three, 32.6% of the respondents agreed with the statement, 42.3% strongly agreed, 12.0% were not sure, 6.9% disagreed and 0.0% strongly disagreed. It can be inferred that business training and social rehabilitation is one of the roles of Islamic finance towards the dispersion of credit among SMEs in Borno and Yobe State. Item four shows that 37.7% of the respondents agreed with the statement, 36.0% strongly agreed, 2.9% were not sure, 17.7% disagreed and 5.7% strongly disagreed. This suggest that promotion of socio-economic conditions and general welfare of among SMEs in Borno and Yobe State is one of the roles of Islamic finance towards the dispersion of credit among SMEs in Borno and Yobe State. Item five above, shows that 50.9% of the respondents agreed with the statement, 29.7% strongly agreed, 2.3% were not sure, 10.3% disagreed and 6.9% strongly disagreed. It can be deduced that provision free interest loan to SMEs is one of the roles of Islamic finance towards the dispersion of credit among SMEs in Borno and Yobe State

Table 2 Summary of Multiple Regression Analysis on the Impact of Islamic Finance Institutions on SMEs

Variable	B	S. Error	t-value	P-value	Remark
PSF (X_1)	0.552	0.165	3.336	0.003	S
PR (X_2)	0.404	0.143	2.826	0.010	S
PFIL (X_3)	0.132	0.057	2.330	0.021	S
Constant	0.669	0.399	1.677	0.122	NS
F-value = 2.160				0.000	
R^2 = 0.772					

Dependent variable: GRT

Independent variables: PST, PR, PFIL

S = Significant, NS = Not significant

Table 2 shows a significant impact of Islamic finance institutions on SMEs in Borno and Yobe State Nigeria. This is because the P-value (0.000) of the ANOVA is less than the alpha value (α= 0.05). Hence, Islamic finance institutions have significant impact on the growth of SMEs in Borno and Yobe State Nigeria. The R^2 = 70% indicates that the model is suitable for explaining the impact of Islamic finance institutions on the growth SMEs in Borno and Yobe State. All the variables included in the model were significant in explaining the impact of Islamic finance institutions on the growth of SMEs in Borno and Yobe State These variables are: PST, PR and PFIL respectively.

The result shows that PSF (X_1) has a positive coefficient that was significant at 5% level. This implies that the start-up fund provided by the Islamic finance has significantly impacted on the growth of SMEs in Borno and Yobe State This finding aligns with the finding of Gumel, Saad and Kassim (2014) which indicated a significant improvement on customers' household income, health care status and children education and shown that Islamic microfinance is a powerful as well as an effective tool in poverty reduction.

The coefficient of PR (X_2) was positive and significant at 5% level. This implies that Islamic finance has significantly reduce poverty among SMEs in Borno and Yobe State. This finding agrees with finding of Ebimobowei, Sophia and Wisdom (2012) which analyzed microfinance and poverty reduction in Bayelsa State using descriptive statistics, indicated that there is a significant relationship among microfinance and poverty reduction in the study area.

The coefficient of PFIL (X_3) was positive and significant at 5% level. This implies that the free interest loan provided by Islamic finance has positively impacted among SMEs in Borno

Conclusion

Islamic micro finance will be effective in reducing the extreme nature of poverty in northern Nigeria by providing interest free credits to the disadvantaged and economically active population. The proposed model will be financially viable and sustainable in the long run, resulting from lower default rates and its diverse source of funds. Considering the challenges faced by the conventional microfinance institutions particularly operating in a Muslim dominated society like northern Nigeria and the prospect of Islamic microfinance and its number of benefits.

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