

Synergising Islamic Microfinance and Islamic Social Finance: An Empirical Study on Credit-Plus Model for Poverty Alleviation in Nigeria

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Abstract: Eradication of extreme poverty is the primary focus of the United Nations' Sustainable Development Goals (SDGs). Despite global efforts, conventional microfinance institutions struggle to sustainably uplift impoverished populations due to interest barriers (Riba) and fragmented operational models. This study presents an innovative, synergistic approach to enhance financial outreach in Nigeria through the implementation of the Credit-Plus concept. Utilizing Igor Ansoff's synergy theory, this research explores how Islamic Microfinance Institutions (IMFIs) can integrate Islamic Social Finance (ISF) resources such as Zakat, Waqf, and Sadaqat to build a comprehensive, sustainable poverty alleviation framework. Adopting an interpretivist epistemological paradigm and an inductive approach, semi-structured interviews were conducted with 16 frontline managers, regulators, and board members across Islamic microfinance, Zakat, and Waqf organizations in Nigeria. The findings demonstrate that integrating Zakat as interest-free loans (Qard al-Hasan) or default bailouts (gharimin), and utilizing underutilized Waqf properties for entrepreneurial ventures significantly expands institutional liability sides and capacities. However, operational success is challenged by differing organizational missions, inadequate regulatory frameworks, and a general lack of consumer awareness. The paper concludes with empirical case evidence from the UK and Nigeria to validate the conceptual pattern and proposed Credit-Plus framework.

Keywords: Islamic Microfinance, Islamic Social Finance, Credit-Plus Model, Poverty Alleviation, Nigeria, Financial Inclusion

Type: Research paper



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1. Introduction

Eradication of extreme poverty has been the no.1 issue of United Nations' (UN) sustainable development goal (SDG). Despite considerable consolidated global efforts, the core objective of reducing extreme poverty to below 3% is now "nearly out of reach" as the World Bank (2024) warned that approximately 8.9% of the global population will be trapped in extreme poverty by 2030. This scenario is comparatively more extreme in developing nations like Nigeria, Congo, Tanzania, Madagascar, and Mozambique, which are among the African nations with a significant impoverished population.

Nigeria is the home of approximately 12% of the global population living in extreme poverty (living below the poverty threshold of \$1.90 per day). Congo, moreover, houses approximately 10% of the worldwide population living in conditions of extreme poverty according to the Global Multidimensional Poverty Index (MPI, 2023). The report further points out that the rural-to-urban poverty ratio stands at 5:1 in African nations. This extreme poverty results in severe conditions like malnutrition, illiteracy, high violence, low healthcare, and shorter life expectancy.

Financial inclusion (FI) is often considered a crucial strategy within the broader framework of inclusive development, aimed at combating poverty and inequality and advancing the Sustainable Development Goals (SDGs). According to the World Bank (2025), a staggering 1.3 billion people worldwide lack access to formal financial services, including a bank account, credit, insurance, a secure place to store savings, or a quick and efficient way to receive social benefits payments through a licensed financial institution. Although this issue is global, average adults in African nations are most frequently financially excluded. Despite making significant improvements in all areas related to financial viability, profitability, and competitiveness, Nigerian banks have not been able to include a vast population segment (Nwidobie, 2019).

Rastogi and Ragabiruntha (2018) outlined private sector development (PSD), financial literacy (FL), and microfinance as the most significant pillars of the quest for financial inclusion. The existing banks and microfinance institutions in Nigeria are struggling hard to resolve financial inclusion. The National Bureau of Statistics (NBS) (2020) statistics show that Nigeria's microfinance institutions support fewer than one million out of 40 million potential borrowers. Furthermore, in Nigeria, microcredit facilities account for just 0.2% of the GDP and less than 1% of total credit to the economy. As of 2022, over 800 microfinance banks operate to drive the government's poverty reduction initiatives in Nigeria (National Bureau of Statistics [NBS], 2023). However, the primary goal of eradicating poverty remains unachieved.

Islamic finance, especially Islamic microfinance with its core social finance principles like mandatory wealth redistribution (through Zakat), voluntary lending (Qard al-Hasan, Waqf), and risk-sharing, has been proven to be highly effective in the fight against poverty (Ahmed, 2014; Rahman, 2010 cited in Shirazi, 2012; IRTI, 2020; Furqon, Nurhayat & Mukhid, 2024). Nevertheless, some factors still hinder the development of Islamic microfinance banks in Nigeria. Salaudeen and Zakariyah (2022) outlined share capital (funding), lack of awareness, inadequate Islamic financial technology for retail services, convenient access for the unbanked, misconceptions, and human resources as Islamic

microfinance operational challenges impeding financial inclusion. Focusing on the same institution, Salaudeen, Sa'ad, and Suleiman (2022) further document that Al-Hayat Microfinance Bank's sustainability is constrained by limited liability-side funding — a gap this study's Credit-Plus model is designed to close through Zakāh- and Waqf-based capital mobilisation.

On the other hand, Saad and Farouk (2019) revealed that the fragmented implementation of the Zakat and Waqf systems within the Nigerian financial system led to weak governance and outreach, as well as feeble administration and management of the two institutions. Furthermore, the absence of Zakat accounting standards and low compliance behavior are significant barriers in this regard. Therefore, the core purpose of the study is to provide an integrated solution (the Credit-Plus concept) to the fragmented efforts of microfinance, Islamic microfinance, and Islamic social finance, exploring its use cases and barriers.

2. Research Objectives

This research presents an innovative, synergistic approach to enhance financial outreach in Nigeria through the implementation of the Credit-Plus concept. The initiative improves existing Islamic microfinance by utilising Islamic social finance resources and offers a comprehensive product that complies with Shari'ah principles, integrating various Islamic social finance and microfinance services into a single effective programme to combat poverty, including microcredit, micro-deposit, Zakat funds, Waqf properties, and entrepreneurship training. This model applies Igor Ansoff's synergy theory to develop a synergistic framework for identifying shared features and assessing the need for collaboration between Islamic Social Finance and Islamic Microfinance in Nigeria, for working together to reduce poverty in the country.

3. Significance of the Study

This study makes a significant contribution by opening up a new academic path for researching financial inclusion in Nigeria, particularly the Islamic poverty alleviation scheme. Moreover, it provides empirical insights on complementary relationships between Islamic social finance and Islamic microfinance institutions and how they can effectively utilize resources to alleviate poverty sustainably with their products. Additionally, it offers a practical solution to tackle their internal challenges and maximize their financial and social impact with limited resources. The research structure of the paper comprises an introduction, literature review, theoretical and conceptual framework, Credit-Plus concept development, findings, recommendations, and conclusion.

4. Literature Review

Microcredit laid the foundation for the concept of microfinance. Microcredit refers to the practice of providing small loans to the underprivileged to meet their daily needs and start small businesses (Mago, 2014). It adopts the "minimalist approach" to providing finance to the poor, which Ledgerwood (1999) refers to as delivering "credit alone" to the poor. While microfinance is an expanded definition of microcredit, it is a more general term. As a tool for reducing poverty, microfinance is gaining increasing popularity. The relationship between microfinance and reducing poverty was empirically examined by Mago (2014). However, Mago's study, like many early microfinance evaluations, focused predominantly on quantitative repayment rates and income metrics, largely overlooking the qualitative, socially constructed realities of borrowers' lived experiences. This positivist orientation leaves unanswered questions about how borrowers perceive the non-financial dimensions of poverty, such as social exclusion and psychological empowerment.

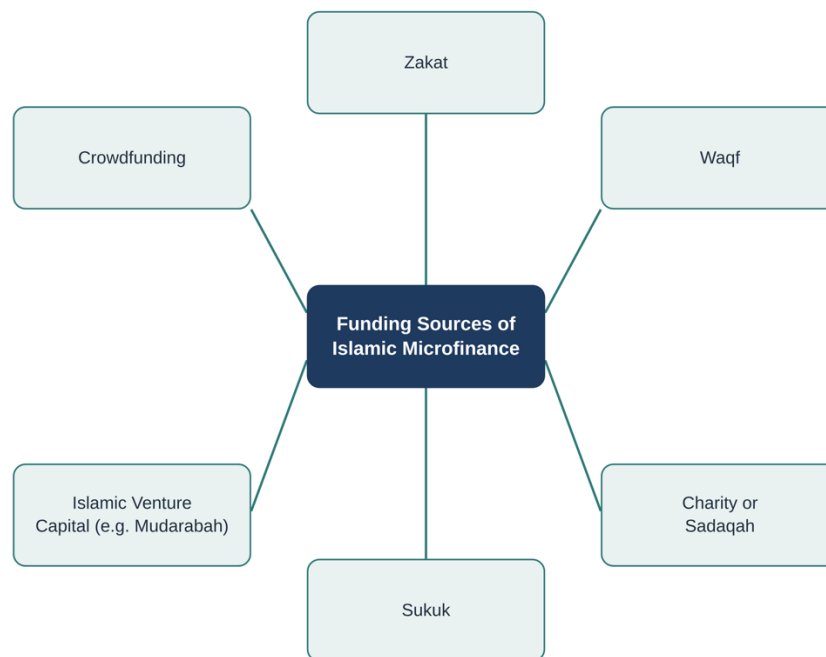
The microfinance sector in Nigeria is still developing and is rather young. At the end of 2018, the microfinance sub-sector in Nigeria had total assets of N408.35 billion (CBN, 2019). However, CBN reports indicate that, given the nation's population of almost 170 million who require microcredit, this number is egregiously insufficient (Afolabi et al., 2020). Individuals living below the poverty line comprise this category and are a primary target for microfinance banks (MFBs) (Afolabi et al., 2020). Currently, there are approximately 882 Microfinance Banks (MFBs) operating across the nation that are authorised, regulated, and supervised by the Central Bank of Nigeria (CBN) (Fadeyi et al., 2021). In general, the MFBs' primary objective is to provide financial services to the underserved, who are often overlooked by established financial institutions (Fadeyi et al., 2021). Other services offered by MFBs include savings, loans, domestic funds transfers, and other financial services necessary for economically active poor individuals, micro, small, and medium-sized businesses, and other enterprises to operate or expand their operations, as described in the Nigerian MFB Guidelines (Fadeyi et al., 2021).

In Nigeria, implementing Islamic microfinance is a matter of equity and social justice, according to Al-Ameen (2016). He highlighted the need for Muslims to have access to a robust Islamic microfinance system as well as how Muslims in Nigeria were shut out of the microfinance industry when the sector was founded and established. Because many low-income Muslims who require microcredit cannot take advantage of government microcredit programmes, Al-Ameen (2016) explored the need for an Islamic MFB for the Nigerian Muslim population. After all, the loan conditions contradict what people hold to be true. However, operational challenges impede Islamic Microfinance organisations' efforts to achieve long-term financial inclusion, as argued by Al-Ameen (2016). The study (Al-Ameen, 2016) though establishes valuable rationale for Islamic microfinance, lacks empirical validation from industry practitioners like Islamic microfinance managers or clients leaving the door open for further investigation regarding the impact of these operational challenges in institutional daily practices. More recent evidence from Abdullahi, Othman, and Kassim (2022) suggests that religiosity moderates the adoption of Islamic microfinance in Nigeria, indicating that awareness and uptake barriers are not purely structural but also attitudinal,

reinforcing the case for social-finance-based outreach mechanisms such as the Credit-Plus model proposed here.

As highlighted by Alshebami and Khandare (2015), Islamic microfinance institutions (IMFIs) provide a variety of goods and services to low-income individuals in the market. Some of the most common goods include Mudharabah (Profit Sharing), Murabaha (Markup or Cost Plus), Musharakah (Partnership), Muzar'ah (Farming Contract), Ijarah thumma Bai (Hire Purchase), Bay Salam (Forward Sale), Qard hasan (Interest-Free Loan), Wadia (Safekeeping), Bai bithamn Ajil (Deferred Payment Sale), Hibah (Gift), wakalah (Agency), and others. Similarly, as emphasised by Hassan et al. (2013), Islamic microfinance products must comply with Shariah and be free from haram activities such as gambling, Riba, and ambiguity or uncertainty (Gharar). Islamic financial contracts differ from Western financing agreements in that interest is prohibited in Islam. They adhere strictly to the terms of sales or lease contracts. The following figure (Figure 1) illustrates the various funding sources for Islamic microfinance.

Figure 1: Different Sources of Islamic Microfinance Funding



Source: Authors' own construction, based on the reviewed literature.

The existing literature lacks efforts regarding the combination of these products for effective poverty alleviation in Nigerian context. Likewise, notable gap is visible in investigating the potential bundling of Islamic microfinance with Islamic social finance to address multidimensional nature of poverty.

In 2017, the Central Bank of Nigeria (CBN) published "Guidelines on the Regulation and Supervision of Non-Interest (Islamic) Microfinance Banks (NIMFBs)." The goal is to equalize the playing field for conventional and NIMFBs. Additionally, it was intended to offer a different type of microfinance model that operated on the concepts of loss- and profit-sharing. Abdullahi and Othman (2021) assessed them to be descriptive without having actual implementation

outcomes and no empirical study has raised question regarding Islamic microfinance remaining marginal despite the policy to the CBN officials or IFI managers.

Alaro and Alalubosa (2019) tried to explore the possibility of Shariah-compliant microfinance as a viable alternative to many previous strategies adopted by the Nigerian State in addressing the menace of poverty in the land. Several important barriers prevent Islamic microfinance organisations in Nigeria from being viable and sustainable. These include subpar law enforcement, ineffective marketing strategies, exorbitant expenses and prices for financial products, a lack of financial literacy in Islamic microfinance, accessibility issues in rural areas, and high costs associated with financial products. On the other hand, according to Yakubu et al. (2018), the problems can be categorized into four main groups: high transaction costs, market penetration, sustainability of Islamic microfinance institutions, and efficiency of these institutions in eradicating poverty. Other difficulties Islamic microfinance institutions face in Nigeria include the disclosure of accounting data and expense matching to Islamic banks, accounting-based revenue recognition, uncertainty in accounting principles related to revenue generation, and a general lack of understanding of accounting principles. It again lacks the voice of existing industry managers.

Islamic social financial tools for wealth distribution in Islam include waqf, infaaq, and zakat. Each of these Islamic philanthropic instruments has the potential to enhance the socioeconomic well-being of the neighborhood (Widiastuti et al., 2022). In the Nigerian context specifically, Zauro, Saad, Ahmi, and Mohd Hussin (2020) show that integrating Waqf into the formal financial system can materially enhance financial inclusion and socio-economic justice, provided that governance and regulatory gaps are addressed — a precondition this study's respondents also identify as a key barrier to collaboration. Additionally, Ascarya's (2022) analysis notes that Islamic social finance instruments—such as waqf, infaaq, and zakat—can aid in the nation's economic recovery from the crisis. As mentioned by Aji et al. (2020), zakah, infaaq, and waqf all often suggest giving or charity. However, in terms of operation, they differ. While waqf and infaaq are optional, zakah is required on every Muslim. Because paying zakah is required, Muslims are more willing to do so in order to avoid punishment and receive a reward from heaven. Because the degree of obligation for zakah, waqf, and infaaq varies, so too may the behavioural desire to perform it. The differences between these three instruments are shown in the following figure (Figure 2):

Figure 2: Differences between zakat, waqf, and infaaq (Aji et al., 2020, p. 4)

The Zakah	Obligatory	Zakah Fitrah	Personal	Non-Monetary	Foods	Paid Using Specific Measurements (Time & Volume)
		Zakah Maal	Business	Monetary & Non-Monetary	Money, Livestock, Golds, Silvers	
	Voluntary	Shodaqoh	Personal & Business	Monetary & Non-Monetary (Property/Wealth)	Infaq	Paid Without Specific Measurements
					Waqf	
				Non-Monetary	Good Virtues	

Note: Reproduced from Aji et al. (2020, p. 4); this figure is not original to the present study and is used here for illustrative comparison only.

Haruna and Ayuba (2015) proposed a model for integrating zakat and waqf with microfinance institutions in Kano, Nigeria. The researchers found that since all their clients are low-income and seldom save money for investments, Islamic microfinance institutions (IMFIs) worldwide struggle to maintain sufficient capital and working capital. Kahf (2004) suggested establishing Islamic microfinance organisations based on Zakat, Waqf, and Sadaqat. They recommended using the returns from Waqf and Sadaqat funds to finance the productive sectors of the economy by providing interest-free microloans, engaging in Islamic debt and non-debt financing, among other methods. By effectively integrating with Islamic microfinance programmes, Haruna and Ayuba (2015) concluded through content analysis of government papers and published literature that both Waqf and Zakat can serve as means to promote economic growth and peace. However, the study is also based on secondary data. This lack of empirical approach makes it untested and unverified from the perspective of supply-side stakeholders.

Taken together, the literature reviewed above addresses Islamic microfinance and Islamic social finance largely as parallel, separately studied fields. Studies on Islamic microfinance in Nigeria (Al-Ameen, 2016; Salaudeen & Zakariyah, 2022; Yakubu et al., 2018) document the sub-sector's operational and regulatory constraints but do not examine how Zakāh, Waqf, or Infaaq could be mobilised to resolve them. Conversely, studies on Islamic social finance instruments (Saad & Farouk, 2019; Ascarya, 2022; Widiastuti et al., 2022) analyse Zakāh and Waqf governance in their own right but stop short of testing their integration into a functioning microfinance delivery model. Where integration has been proposed, as in Haruna and Ayuba (2015) and Kahf (2004), the arguments rest on secondary data and documentary analysis rather than on primary evidence from the managers, regulators, and board members who would operationalise such a model. This leaves a clear gap: no existing study empirically

tests, from the perspective of industry practitioners, a single operational framework that bundles Islamic microfinance products with Islamic social finance instruments for poverty alleviation in Nigeria. The present study addresses this gap by developing and empirically grounding the Credit-Plus model through primary qualitative data collected from 16 practitioners and regulators spanning both sub-sectors, thereby advancing the literature from parallel description toward integrated, evidence-based synthesis.

5. Research Methodology

This study falls under interpretivism paradigm. Unlike prior positivist studies on Islamic finance in Nigeria (Abubakar, 2014; Oluyombo & Ogundimu, 2017; Salaudeen & Zakariyah, 2022), interpretivism aligns with this study's synergistic investigation from the perspectives of managers and stakeholders. An inductive approach is employed to examine the proposed synergistic concept through empirical qualitative data.

This study utilizes Igor Ansoff's synergy theory, which defines synergy as the combined effect of two resources working together exceeding the sum of their individual contributions (Raluca, 2011). Ansoff identifies four synergy types: sales, managerial, operational, and investment. The theory is applied to develop a synergistic conceptual framework identifying commonalities and assessing collaboration needs between Islamic social finance and Islamic microfinance in Nigeria.

Ansoff's synergy theory is preferred here over alternative lenses such as social capital theory or institutional theory because it was developed specifically to evaluate the combined performance gains from pooling distinct organisational resources — precisely the relationship this study investigates between ISF and IMF institutions, each holding complementary funding, outreach, and governance assets. Social capital theory would foreground trust and networks between individuals rather than the resource-combination logic that Credit-Plus depends on, while institutional theory would foreground regulatory legitimacy and isomorphism rather than the efficiency gains from pooling capital and capabilities. Ansoff's framework is therefore the more direct fit for a study whose central proposition is that combining ISF and IMF resources yields outcomes exceeding what either sub-sector could achieve separately, though the study acknowledges that a social-capital or institutional lens could usefully complement this analysis in future research on trust-building and regulatory legitimacy between the two sub-sectors.

The proposed Credit-Plus model integrates Zakat, Waqf, and Sadaqat as regular funding sources for microfinance programmes, including Qard al-Hasan, default bailouts (gharimin), cash waqf, crowdfunding waqf, and ijarah. A qualitative method was employed, as it emphasizes the socially structured nature of reality and the relationship between researcher and studied phenomena (Orb et al., 2001). This approach seeks the perspective of industry practitioners through semi-structured interviews.

5.1. Participants and Data Collection

The participants were mainly decision making bodies like the managers and board members of Islamic microfinance institutions of Nigeria (mentioned in Table 1). 16 informants' empirical data have been collected to assess the synergistic effect, identify commonalities, and evaluate collaboration needs between Islamic social finance and Islamic microfinance. Participants were selected using purposive, criterion-based sampling: eligibility required that an individual currently hold a decision-making role (manager, board member, Shari'ah adviser, or regulator) within an Islamic microfinance bank, a Zakāh or Waqf organisation, or the non-interest banking division of a regulator, and have direct working knowledge of collaboration (or its absence) between the two sub-sectors. This ensured that every respondent could speak from operational experience rather than general awareness. The sample size of 16 was guided by the principle of information power rather than a fixed numerical target: recruitment continued until successive interviews within each respondent category (IMF managers, ISF managers, and regulators) were no longer generating new codes, at which point thematic saturation was judged to have been reached for the three central interview themes. Because the sample is concentrated among practitioners based in Lagos, Ogun, and Kaduna States, the findings are best read as analytically generalisable to similarly structured urban Islamic finance ecosystems rather than as statistically representative of Nigeria's 36 states, and this regional concentration is acknowledged as a limitation of the study.

Interview questions addressed three central themes: (1) how Zakat and Waqf can support Islamic microfinance programmes, (2) the frequency and benefits of collaboration, and (3) main challenges in integration. All necessary steps, protocols, and ethical considerations associated with academic interviews were strictly followed. Data analysis employed thematic analysis using node coding and content analysis of transcribed interview data, utilizing ATLAS.ti software. Codes were generated inductively from participant responses, from which thematic categories were derived.

Interviews lasted between 35 and 55 minutes and were conducted via a mix of face-to-face meetings and secure video calls, depending on respondent location and availability, and were audio-recorded with consent and transcribed verbatim. The interview guide was developed from the literature reviewed above and refined through two pilot interviews with practitioners outside the final sample; feedback from the pilot led to the rewording of ambiguous items and confirmed that the three central themes were interpreted consistently by respondents from both the IMF and ISF sub-sectors. To strengthen coding rigor, transcripts were coded independently by two members of the research team in ATLAS.ti, and divergent codes were reconciled through discussion until consensus was reached before themes were finalised. Trustworthiness was further supported through triangulation across respondent categories (managers, board members, Shari'ah advisers, and regulators), a maintained audit trail of the coding decisions, and member-checking, in which a summary of emerging themes was shared with a subset of respondents to confirm that the interpretation reflected their intended meaning.

Table 1: Profile of Research Respondents and Institutional Representatives

Respondents	Themes / Sector	Position	Representative Organization
Respondent 1 (R1)	Zakat and Waqf	Secretary	AZAWON (Association of Zakat and Waqf Operators in Nigeria)
Respondent 2 (R2)	Zakat and Waqf	Chairman	Zakat and Waqf Foundation Kaduna
Respondent 3 (R3)	Islamic Microfinance	MD	Hayat Trust Non-interest MFB Ltd (Ijebu-Ode, Ogun State)
Respondent 4 (R4)	Zakat and Sadaqah	CEO	Zakat and Sadaqat Foundation, Lagos, Nigeria
Respondent 5 (R5)	Islamic Microfinance	Chairman	Hayat Trust Non-interest MFB Ltd (Ijebu-Ode, Ogun State)
Respondent 6 (R6)	IMF Regulator	Sharia Board Member	Central Bank of Nigeria (Non-interest Banking Division)
Respondent 7 (R7)	Waqf and Zakat	Senior Lecturer / Expert	Islamic Law Dept, Faculty of Law, Kwara State University
Respondent 8 (R8)	Islamic Microfinance	MD	Al-Barakah Microfinance Bank
Respondent 9 (R9)	Islamic Microfinance	Sharia Advisor	Al-Barakah Microfinance Bank
Respondent 10 (R10)	Waqf and Zakat	CEO	Jaiz Foundation
Respondent 11 (R11)	Waqf and Zakat	Director for Zakat	TAJBank Limited
Respondent 12 (R12)	Waqf and Zakat	CEO	Imaam Maalik Zakat and Waqf Foundation
Respondent 13 (R13)	Waqf and Zakat	MD	Jaiz Foundation and Development Foundation
Respondent 14 (R14)	Waqf and Zakat	CEO	Zakat and Awqaf Foundation (ZAAF)
Respondent 15 (R15)	Islamic Microfinance	Director	NPF Microfinance Bank
Respondent 16 (R16)	IMF Regulator	Regulator	Rayyan Microfinance Bank

6. Results and Discussion

6.1. Results

This section highlights how Islamic social finance can be efficiently integrated into Islamic microfinance programmes in Nigeria. In addition, on how Islamic social finance institutions can efficiently collaborate with Islamic microfinance organisations in this country. The responses of the 16 respondents of this study have been considered for in-depth analysis.

Effectiveness of Zakah and Waqf in Supporting Islamic Microfinance

The respondents of this study were asked how Islamic social finance instruments like Zakāh and Waqf can be useful for supporting Islamic microfinance programmes. After analysing the responses of the respondents using the ATLAS.ti platform, the resulting codes were consolidated into the three themes summarised in Table 2 below.

Table 2: Generated Themes on the Effectiveness of Zakāh and Waqf in Supporting Islamic Microfinance (ATLAS.ti Thematic Coding)

No.	Generated theme	Elaboration (ATLAS.ti coding)
1	Maximising Zakāh and Waqf benefits	Increasing the economic status of the Aṣṇāf (beneficiaries) through targeted disbursement of funds
2	Sustainable financing models	Using Zakāh and Waqf funds as interest-free loans or grants that recycle capital to support multiple projects over time
3	Capital access for entrepreneurs and small businesses	Investing Zakāh and Waqf resources to give entrepreneurs and small businesses the capital needed to grow and thrive

Based on the codes, a number of themes are derived (Table 2). Such as: Maximising the benefits of Zakāh and Waqf by increasing the economic status of the Aṣṇāf, Using Zakāh and Waqf funds to create sustainable financing models, Investing Zakāh and Waqf resources in providing entrepreneurs and small businesses with the necessary capital to grow and thrive.

By integrating Zakāh and Waqf funds with other Islamic financing tools, Nigeria can create a more comprehensive and sustainable approach to social and economic development. “R1” answered that, “Any waqf properties that is underutilised can be used to support (Islamic microfinance activities) to maximise the benefits”. Likewise, “R2” said, “Zakāh funds can be allotted as interest-free loans or grants to entrepreneurs and small businesses can use to create sustainable financing models that support multiple microfinance projects over time”. So, by addressing each social issue, all stakeholders together with a pertinent strategic vision in a single project can use as a development lifecycle.

This finding is consistent with Haruna and Ayuba (2015) and Kahf (2004), who similarly proposed channelling Zakāh and Waqf into productive microfinance activity, but extends their largely conceptual arguments with primary evidence that practitioners already view such channelling as operationally feasible. In Ansoff's terms, this reflects an investment synergy: pooling ISF capital with IMF lending infrastructure produces financing capacity that neither sub-sector could generate independently, directly supporting this study's central proposition.

Frequency, Dynamics, and Benefits of Institutional Collaboration

The respondents of this study were asked how often their organisation collaborate with Islamic microfinance institutions and what the main benefits of this collaboration are for both parties. After analyzing the responses of the respondents using the ATLAS.ti platform regarding the importance of collaboration with Islamic microfinance institutions, the resulting codes were consolidated into the six themes summarised in Table 3 below.

Table 3: Generated Themes on the Importance of Collaboration with Islamic Microfinance Institutions (ATLAS.ti Thematic Coding)

No.	Generated theme	Elaboration (ATLAS.ti coding)
1	Umbrella support role	ISF institutions can act as an umbrella body, supporting microfinance organisations when they need it most
2	Promoting best practice	Encouraging microfinance organisations to adopt recognised industry best practices
3	Beneficiary empowerment	Empowering a larger number of beneficiaries through joint activity
4	Improved fund governance	Promoting more effective management and distribution of Waqf and Zakāh funds
5	Enhanced institutional credibility	Increasing the credibility of both ISF and microfinance organisations in the eyes of the public
6	Sectoral impact	Supporting financial inclusion and entrepreneurship development through collaboration

A number of themes are derived from the codes, which are: Acting as an umbrella organisation can help other microfinance organisations when they need most, By encouraging the microfinance organizations follow the best practices in the industry, Empowering more people by this sort of collaboration, Promoting a very good system of managing or distributing waqf and zakāh funds, Increasing the credibility of both Zakāh and Waqf and microfinance organisations and Assisting areas like financial inclusion and entrepreneurship development through collaboration.

By collaborating with a number of microfinance organisations, the benefits of Zakāh and Waqf can be increased. Organization's credibility to common people can be improved as well through this collaboration. Through collaboration they can share their expertise, which also develops the organizational capacity. As from the response of "R11", "My opinion is that collaborating with microfinance organisations can give our bank the opportunity to strengthen and bolster these organisations. It will ultimately allow these organisations to help more poor people". Also, "R13" mentioned that, "Our foundation keeps close contact with various microfinance organisations to gain success in our initiatives based on Zakāh and Waqf. We also try to train those organisations to enhance their performance". Thus, areas such as financial inclusion, poverty reduction, and entrepreneurship development would be particularly beneficial for collaboration.

This pattern of mutual capacity-building echoes Ascarya (2022) and Widiastuti et al. (2022), who found that Islamic social finance instruments deliver greater developmental impact when embedded within, rather than parallel to, formal financial institutions. Read through Ansoff's framework, the credibility and best-practice gains reported by respondents correspond to managerial synergy — shared managerial know-how raising the operating standard of both sub-sectors — complementing the investment synergy identified above.

Key Operational and Structural Challenges in Integration

Finally, the respondents in this study were asked to identify their institution's main challenges in integrating Zakāh and Waqf with Islamic microfinance. After analysing the responses of the respondents using the ATLAS.ti platform regarding challenges in integrating Zakāh and Waqf with Islamic microfinance, the resulting codes were consolidated into the six themes summarised in Table 4 below.

Table 4: Generated Themes on Challenges in Integrating Zakāh and Waqf with Islamic Microfinance (ATLAS.ti Thematic Coding)

No.	Generated theme	Elaboration (ATLAS.ti coding)
1	Divergent institutional missions	Reconciling different visions, missions, and goals across Zakāh, Waqf, and microfinance organisations
2	Collaboration management	Coordinating effective collaboration among Zakāh, Waqf, and microfinance institutions
3	Regulatory constraints	Navigating regulatory requirements when deploying Zakāh and Waqf funds in microfinance activity
4	Human resource gaps	Shortage of skilled and experienced personnel to run ISF-funded microfinance programmes
5	Monitoring difficulty	Verifying that Zakāh and Waqf funds are properly utilised and reach only eligible Aṣṇāf
6	Risk transfer to ISF institutions	Tendency of microfinance institutions to shift the burden of defaulters onto Zakāh and Waqf institutions

According to the codes, the driving themes are: Making adjustments to different vision, mission, and goals of zakāh, waqf, and microfinance organisations, Managing effective collaboration among zakāh, waqf, and microfinance institutions, Handling regulatory issues while conducting Islamic microfinance activities using zakāh and waqf funds, Lack of skilled and experienced manpower to conduct microfinance programmes with Zakāh and Waqf resources, Inability to monitor the activities of Islamic microfinance organisations to make sure that Zakāh and Waqf funds are properly utilised and only Aṣṇāf people are getting benefitted and The tendency of microfinance organisations to shoulder the burden of defaulters on the Zakāh and Waqf institutions.

The process for collaborating with Islamic microfinance organizations is not easy. Monitoring their activities also makes the task complex. Zakāh and Waqf organisations do not follow the same process like Islamic microfinance institutions and our goals are also different. This makes our collaboration difficult. Considering the answer from “R7”, “The first challenge is to make sure that the charge levied by Islamic microfinance organisations on the low-income people is minimized. This will be beneficial for Zakāh and Waqf institutions. Secondly, in case of defaults, the microfinance institutions always try to transfer the risk to us, they don’t want to share the risk”. Relating to the other findings, “R7” explained, “One of the major challenges facing Islamic social finance in Nigeria is the lack of awareness and understanding about Islamic financing instruments, including Waqf. Another challenge is the need for regulatory frameworks that support the development of Islamic social finance initiatives”. People in Nigeria are not well-aware about the necessary factors related to Zakāh,

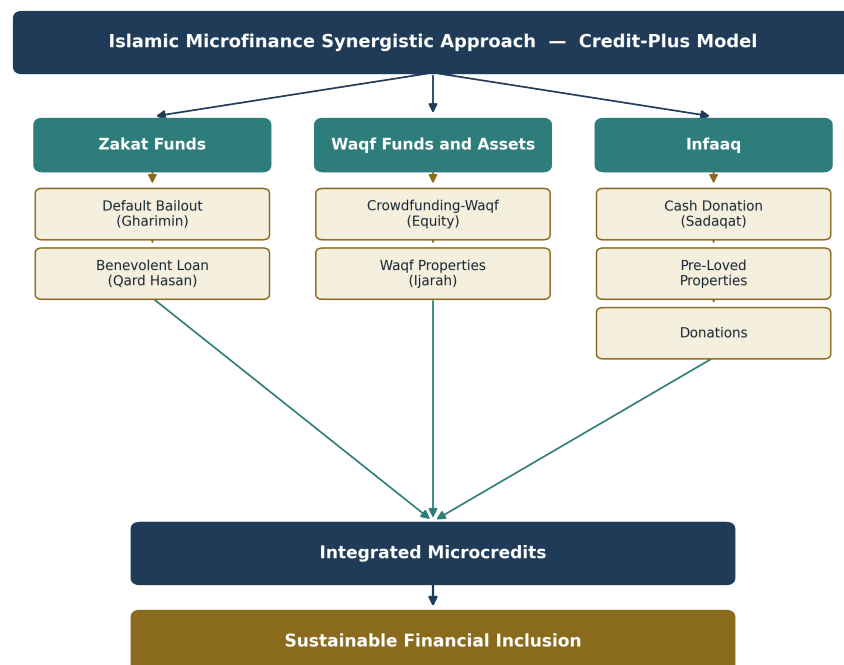
Waqf, and Islamic microfinance. So, people often do not realise how and why they have to return the money they are getting from Islamic microfinance organisations. So, organizations face collaboration challenge.

These operational tensions mirror the governance and coordination weaknesses reported by Saad and Farouk (2019) and Zauro et al. (2020) for Nigeria's Zakāh and Waqf sub-sectors more broadly, suggesting that the challenges identified here are not specific to the institutions sampled but reflect a structural feature of Nigeria's fragmented Islamic social finance ecosystem. In Ansoff's terms, these barriers represent negative synergy risk — the possibility that combining resources without aligned governance erodes, rather than creates, value — and they directly inform the safeguards built into the Credit-Plus framework presented in the following section.

6.2. Discussion and Framework

To enhance Islamic microfinance capacities through integration with other Islamic Social Finance resources, this study proposes a Credit-Plus model that fosters synergistic interaction. As stated in this study, microfinance programs can be strengthened by utilising Islamic social finance (ISF) tools, including zakāh, waqf, and infaq, as a consistent source of funding. According to the suggested system (Figure 3), zakāh and waqf funds will be gathered for the underprivileged as either default bailouts (to gharimin) to IMF non-performing loans or charitable loans (Qard-E-Hasan).

Figure 3: Credit-Plus Conceptual Framework



Source: Authors' own construction, developed from the study's empirical findings (see Results section).

The money raised will be distributed to the impoverished as equity, through crowdfunding-waqf, or as a cash waqf. Moreover, the infaaq parts will be gathered in the form of donations of pre-owned properties, cash, or sadaqah. Sustainable financial inclusion and Islamic microfinance's synergistic approach will be combined in the credit-plus model.

In the proposed model, governments, NGOs, wealthy Muslims, and highly motivated individuals will provide funding to Islamic MFIs through Islamic social finance instruments. Islamic MFIs will invest the fund in secured portfolios, and the return from the investment will be utilised to provide financing to the unbankable segment of society through applicable Shari'ah contracts and concepts. Hence, the proposed model has the potential to address the problems faced by Islamic microfinance institutions (MFIs) on their liability side. This will enhance the economic viability of Islamic MFIs by providing a good source of funds, which is a serious challenge for all Islamic MFIs.

Each element of the Credit-Plus framework was derived directly from the barriers reported in the Results section rather than assembled independently of the fieldwork. The framework's default-bailout (gharimin) and Qard-E-Hasan channels respond directly to the risk-transfer barrier reported by respondents such as R7, who described microfinance institutions attempting to shift default risk onto ISF institutions: by formalising Zakāh-funded bailout and interest-free-loan channels ex ante, the framework converts an informal, contested risk transfer into a governed, pre-agreed mechanism. Similarly, the crowdfunding-waqf and cash-waqf channels respond to the divergent-mission barrier identified in Table 4, by giving Waqf institutions a defined equity-like stake in outcomes rather than requiring them to subordinate their charitable mandate to a purely commercial lending logic. Because the framework is built from these empirically identified barriers rather than from theory alone, it should nonetheless be treated as a conceptually validated rather than operationally tested model at this stage; the authors recommend that subsequent research validate the framework through structured expert review with Shari'ah scholars and regulators, a Delphi exercise with practitioners from the sampled institutions, or a small-scale pilot implementation, before broader policy adoption is pursued.

The development of this model primarily utilises Igor Ansoff's (1965) Synergistic Effect Concept. Ansoff defines synergy as "a measure of collaborative effects, when the income from the joint utilisation of resources exceeds the sum of incomes from utilising the same resources separately" (Radeva, 2014, p.4). Additionally, sources of competitive advantage include synergies formed through the combination of resources and competencies. Concerning the anticipated collaboration between Islamic Microfinance (IMF) institutions and Islamic Social Finance (ISF) organisations, both share the goal of enhancing financial inclusion and supporting low-income and impoverished individuals.

Zakāh in Islamic Microfinance

People can use Zakāh money to give interest-free loans (Qard ḥasan) or grants to small businesses and entrepreneurs. This method provides people with the money they need who might not be able to obtain a regular bank loan because they lack sufficient collateral or a strong credit history. For example, Zakāh has been a great way to help women business owners in Nigeria grow their businesses and achieve financial independence.

Waqf in Islamic Microfinance

Waqf properties can be utilised to support microfinance initiatives. Waqf assets that aren't being used enough can be used in new ways to make money that can then be put back into microfinance programs. This method not only maximises the benefits of Waqf properties, but it also ensures they continue to support the community.

6.3 Empirical Case Studies on Several Collaborations Between Islamic Social Finance Institutions and Other Institutions: Evidence from the UK and Nigeria

In support of the proposed modified Ansoff's Credit-plus model and the empirical evidence from this study, several ISF institutions are collaborating with other organisations to enhance financial inclusion and effectively reduce the financial burden on applicants and beneficiaries.

The National Zakāh Foundation's Strategic Partnership in the UK

The National Zakāh Foundation (NZF) is a fully digital Islamic social finance organisation dedicated to collecting zakāh in the UK and distributing it to the Aṣnāf (beneficiaries). One of the major partnerships of NZF involves strategic collaboration with various local councils in the UK, by directly paying any rent and council tax arrears owed by the applicant to the councils. In 2024, NZF supported over 10,000 applicants with more than £2 million in council tax and rent arrears (NZF Annual Report, 2024).

They also partner with several academic institutions, such as Holt Green Training, Cambridge Muslim College and Markfield Institute of Higher Education, providing academic and professional Islamic education. In 2024, NZF supported 282 people with £207,954 through the empowerment partnership program (NZF, 2025).

Furthermore, NZF assisted the applicant locally by partnering with the local mosque through the Community Zakāh Programme (CZP) with over 20 local mosques on board across the UK (NZF, 2025). This collaboration provides the applicant, who is in urgent need, with immediate cash for emergencies before directing them to the official NZF website for the application process.

In this context, ISF and IMF institutions in Nigeria are not as digitally advanced as NZF in the UK. However, they can learn from the aforementioned NZF strategic partnership to develop well-structured financial assistance for their Aṣnāf – beneficiaries – through the proposed Credit-Plus model.

This comparison should, however, be drawn with caution rather than treated as a direct blueprint. The UK and Nigeria differ substantially in regulatory environment — NZF operates within a single, well-established charity and financial-conduct regulatory regime, whereas Nigerian ISF and IMF institutions answer to a more fragmented set of state, religious, and CBN oversight bodies with uneven enforcement capacity. Digital infrastructure also differs sharply: NZF's model presupposes near-universal banking access, smartphone penetration, and reliable identity verification, conditions that do not yet hold uniformly across Nigeria, particularly in rural areas where the respondents' beneficiary populations are concentrated. Socio-economic conditions differ as well, since NZF primarily addresses rent and council-tax arrears within a formal welfare system, whereas

Nigerian Aṣṇāf more often face informal livelihoods and multidimensional deprivation without an equivalent welfare safety net. Consequently, what Nigeria can usefully adapt from the NZF case is the principle of structured, needs-based partnership between a Zakāh body and formal institutions, rather than the specific digital delivery mechanism, and the Credit-Plus model is accordingly designed to accommodate lower-connectivity, higher-informality operating conditions.

A Single Case Study Between Zakāh and Ṣadaqah Foundation and Al-Hayat Microfinance Bank in Nigeria

‘R3’, a senior staff member of Al-Hayat Microfinance Bank, provided a real example of unofficial collaboration with the Zakāh and Ṣadaqah Foundation (ZSF) to assist one of their customers. A customer of Al-Hayat Microfinance requested Islamic microfinancing for a tricycle, Al-Hayat Microfinance offers financing option, generating a profit of just 300,000 Naira (\$250), which represents 15% of the total financing for a 2,000,000 Naira tricycle. However, the challenge with this financing is that the applicant must deposit 500,000 Naira (\$400). The ZSF supported this applicant with a one-off grant of 500,000 Naira (matching the applicant’s required deposit), paid directly to Al-Hayat. This enabled the customer to initiate a partnership with a 25% ownership stake in the 2,000,000 Naira worth of tricycle, while Al-Hayat owns 75% (1,500,000 Naira), along with a 15% profit (300,000 Naira).

This case supports the research finding that existing ISF tools can empower IMIFs to provide more adequate and sustainable financing. This collaboration turned a zakāh recipient into a potential zakāh donor.

7. Conclusion

This study concentrates on developing an Islamic microfinance model based on Islamic social finance (ISF) instruments. By strengthening collaboration between IMFIs and ISF organisations, Nigeria can develop a sustainable and inclusive Islamic microfinance ecosystem that aligns with Sharī‘ah principles and socio-economic development goals. Future research should explore practical implementation strategies and measure the long-term impact of such models on poverty reduction and economic empowerment.

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