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Islamic microfinance as a panacea for poverty alleviation

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Abstract

Islamic microfinance is a tool for promoting financial inclusion and reducing poverty levels. Countries such as Nigeria has scanty empirical investigations in this regard. This calls for a more robust analysis. This study, therefore, investigated the influence of the Islamic microfinance system on poverty alleviation in Kwara State, Nigeria. Non-probability, purposive sampling was adopted to select traders and small business owners from the weekly-market setting of selected towns/villages in the three senatorial districts of Kwara State. Five (5) markets were selected from each of the three (3) senatorial districts. Data were collected with a structured questionnaire and analyzed with descriptive and inferential statistics. Ordered Logistic Regression was conducted. It was found that qard al hasan (0.91, $p<0.05$) murbah (0.72, $p<0.01$), mudharaba (0.51, $p<0.1$) musharaka (0.17, $p<0.05$) had a positive, significant effect on income level. It was also found that qard al hasan (0.38, $p<0.05$) murbaha (0.63, $p<0.01$), mudharaba (0.15, $p<0.05$) musharaka (0.59, $p<0.01$), zakat (0.45, $p<0.01$) and sadaqa (1.35, $p<0.01$) had a positive, significant effect on the productivity level. The study concluded that micro-credit, micro-equity and charity (social finance) products significantly influenced poverty alleviation. An adequate supply of shariah-compliant micro-credit, micro-equity and charity financial resources was recommended to boost the productivity and income levels of low-income earners and small business owners in the State. Also, the Central Bank of Nigeria (CBN) is encouraged to provide enabling environment for formal non-interest microfinance to promote financial inclusion and reduce poverty in the Country.

Keywords: Islamic Microfinance, Microcredit, Micro-equity, Nigeria, Social finance, Poverty alleviation.

1. Introduction

The level of poverty in less developed countries like Nigeria is increasing at an alarming rate in recent times. In 2020, the National Bureau of Statistics (NBS) reported that about 40.1% of Nigerians are poor (National Bureau of Statistics, NBS, 2020). The aftermath effect of the COVID-19 pandemic and current economic conditions across the globe would have worsened and increased the rate from the 2020 report. The observed poverty level in Nigeria indicates that only some financial inclusion strategies, including microfinancing, towards alleviating poverty have yet to achieve the desired objectives. The essence of microfinance is to bridge the vacuum created by accessing financial resources from conventional banks by low-income earners and small business owners who could not meet the loan requirements. Thus, microfinance was introduced to bring low-income earners into the financial system and promote financial inclusion.

However, the socio-economic objectives of microfinance could not be said to have been adequately realized as sizeable number of Muslim populations in the country are still being indirectly excluded. The exclusion may be because certain low-income populations may freely choose not to use microfinance even in the presence of financial services due to religious beliefs (Maulana et al., 2018). On the other hand, the government has been facing challenges in implementing its poverty alleviation programmes. For instance, the TraderMoni, a Government Enterprise and Empowerment Programme (GEEP) Initiative, was introduced to provide a collateral loan of N10,000, with interest, to help small traders boost their trading activities. As good as this scheme sounds, some are automatically excluded due to poor design, formulation and implementation, and the charging of interest. Shaikh (2017) asserts that poverty is more effectively alleviated through profit-sharing-based (Islamic) microfinancing than interest-based microfinance. Thus, to ensure financial inclusion, Islamic microfinance based on interest-free loans is advocated (Ali, 2017). Islamic microfinance will provide adequate financial inclusion for low-income earners and small business owners (Ali, 2017; Alaro & Alalubosa, 2019). Increased financial inclusion tends to ensure the efficient allocation of resources, reduces inequalities and provides opportunities for the poor (Demirguc-Kunt, Beck & Honohan, 2008). There is also a need for the government to efficiently and leak-proofly transfer resources to improve the socio-economic life of citizens. Against this background, this study examined the influence of the Islamic microfinance system on financial inclusion and poverty alleviation in Kwara State, Nigeria.

The current microfinance arrangement could not address the socio-economic needs of low-income earners because it is interest-based. To resolve these issues, microfinancing must give access to interest-free financing. Islamic financial institutions follow Shariah principles and prohibit interest, making conventional interest rates ineffective in controlling credit demand (Drissi & Guerguer, 2023). This allows underserved low-income earners and small business owners to be financially included. Rather than give out loans in cash where repayment could at times be difficult, the asset-based financing model of Islamic microfinance could be introduced where funds are released only for real economic activities. The model also ensures effective monitoring and supervision of how the funds are utilized.

Although several studies have identified Islamic microfinance as a tool for bringing underserved poor people into the financial system to reduce poverty, empirical investigations are still scanty. This calls for a more robust analysis that will inform implementable policy recommendations. Furthermore, some of the previous studies such as Adnan and Ajija (2015), and Ibrahim and Murtala (2018) considered *mudharabah*, *musharakah*, *murabahah*, *ijarah* and *qard al-hasan* while ignoring *zakat*, *sadaqah*, *waqf* and *salam*. These neglected assets finances are important because they do not require repayment and can be used for a long time to help alleviate poverty. In addition, previous studies on poverty alleviation neglected the possible impact of income accruable to potential beneficiaries of Islamic microfinance. The justification for the income of beneficiaries of Islamic microfinance emanated from the theory of the vicious cycle of poverty that assumes that the bane of poverty is low income. These neglected areas constituted the need for this study. This study, therefore, examined the influence of the Islamic microfinance system on poverty alleviation in Kwara State, Nigeria.

2. Literature Review

2.1 Concept of Microfinance

Microfinance is an arrangement through which financial services like savings, loan extension, payment services, money transfers and insurance services are provided to the poor, low-income earners and their microeconomic activities (Babu, Naratejaswini & Umakanth, 2019). According to the Reserve Bank of India (2000), microfinance is an arrangement that comprises the provision of money, credit, and other financial services to raise the standard of living and economic well-being of the underprivileged and small business owners in rural, semi-urban, and urban areas. Kurmanalieva et al. (2003) stated that microfinancing targets economically disadvantaged individuals by offering microcredit and other small-scale financial services. This is to improve their socioeconomic wellbeing. Microfinance is, therefore, a strategy for promoting financial inclusion. Supporting this assertion, Adnan and Kumar (2021) posited that microfinance offers banking services to those typically shut out of the traditional banking system. The arrangement is essential for ensuring the financial inclusion of those who are financially disadvantaged (Adnan & Kumar, 2021).

Discussing the importance of microfinance, Rohman et al. (2021) projected microfinance as a veritable tool for solving poverty-related problems as it can provide micro-loans to micro and small businesses. Despite the observed role of microfinance institutions, conventional microfinance institutions have fallen short of expectations and cannot solve the poverty problems. Rohman et al (2021) stated that conventional microfinance institutions could have more effectively addressed the problem of poverty because they still operate on interest. It is on this basis that Islamic microfinance was adopted to bridge this gap by promoting financial inclusion and alleviating poverty among low-income earners (Shinkafi, Yahya & Sani, 2019; Alaro & Alalubosa, 2019).

2.2 Islamic microfinance

Islamic microfinance is an arrangement that aims at improving the socioeconomic well-being of the poor, micro and small businesses who were financially marginalized by providing them with Sharıʿah-compliant financing (Akbar & Siti-Nabiha, 2022; Dusuki,2008). Rohman et al. (2021) viewed Islamic microfinance as an institution that operates on certain Islamic values like the application of *shariah maqasid*, prohibition of usury, elimination of injustice and gambling elements. As a subset of Islamic finance, Islamic microfinance adheres to Shari'ah law and forbids transactions based on interest known as *riba* (Hassan, et al, 2021). Therefore, Islamic microfinance operates its programs following the principles of Islamic Shariah which include prohibition of interest, risk sharing, avoidance of gharar or ambiguity and ensuring falah (welfare) for all members of the society (Nabi et al, 2017).

Islamic microfinance promotes financial intermediation and alleviates poverty. El-Komi and Croson (2013) observed that Islamic microfinance products, particularly microcredit, provide a platform for profit sharing and joint venture contracts, useful tools for mobilising funds for productive economic activities from Muslim and non-Muslim populations. This is because it can increase the pool of potential borrowers among Muslims and yield greater compliance rates among non-Muslims. Islamic microfinance has been linked with poverty alleviation through the moderating effect of financial inclusion (Ali, 2017). According to Shinkafi, Yahaya and Sani (2019), Islamic microfinance institutions can promote financial inclusion by providing Shariah-compliant financial services to solve grass-root problems relating to farming or agricultural financing.According to Rohman et al (2021), such services include buying and selling (*bay'u al-murabaha*), business cooperation (*al-musharakah, al-mudharabah*), lease-based (*al-ijarah*) and interest-free loans (*qardh al-hasan*). It is therefore advocated that Islamic microfinance institutions be situated for operation in rural areas to boost their productivity and financial inclusion (Al-Awlaqi & Aamer, 2019). This is necessary to alleviate poverty among people in rural communities, low-income earners, small business owners and petty traders (Shaikh, 2017). The role of Islamic microfinance in financial inclusion and poverty alleviation was also buttressed by Satar and Kassim (2020), who stated that Islamic microfinance is vital in enhancing financial inclusion among the poor, particularly in Muslim countries. Islamic microfinance institutions are in better positions for such responsibilities due to certain features like financial inclusion focus, collateral-free loans and low transaction cost, which differentiate them from other types of Islamic finance (Widiarto & Emrouznejad, 2015).

2.2.1 Islamic microfinance structures

Global Islamic Finance Report (2012) classified Islamic microfinance products into three structures: microcredit, micro-equity, and charity. Micro-credit involves using the business's assets based on a loan or lease, which absorbs the insufficient funds when a business opportunity arises. In the case of micro-equity factors of production are combined in a way that will make it possible for the profit or loss to be shared in the agreed ratio. The charity type of Islamic microfinance is when the institution or arrangement becomes an additional empowerment to people for safety and sustainability purposes (Nabi et al., 2017). According to Usman and Tasmin (2016), micro-credit products feature cards al-hasan, murabaha, ijarah, and salam, among others; micro-equity transactions come in the form of mudharaba and musharakah, while charity usually involves zakat, sadaqah and waqf. Apart from microcredit, micro equity and charity, which are the main financial services, Islamic microfinance also provides non-financial services like sensitization on Islamic ethical values, which aims at improving knowledge of Islamic religion, Islamic economics and finance (Senghor, 2023).

2.2.2 Microcredit products

Qardh al-hasan is an interest-free loan that is usually granted to accommodate target customers at times of emergency or shortage of liquidity and fosters good relationships between the institutions and their customers (Sadr, 2015). In Murabaha, an asset or a product is bought by the institution (such as a microfinance bank) and then sold at the cost-plus profit element to the customer (Ijaiya et al., 2021). In the case of ijarah, an agreement is reached between the owner or financier and the user to transfer the right to use an asset for a specified period in return for rental payments to the asset owner (Afkar, 2015). Salam is another Islamic finance contract that microfinance might adopt to serve small-scale enterprises. It is an agreement to sell some specified goods with known attributes like quantity and price, which are expected to be paid for at the time of the contract but delivered at a future date (IFSB, 2018).

2.2.3 Micro-equity products

Jimoh, Attah and Abdul (2021) view mudharabah as an Islamic financial contract under which capital is entrusted to an entrepreneur who invests the fund to make a profit, which is then shared between the financier and the entrepreneur. Microfinance institutions can also make funds available to small business owners to boost their businesses while sharing profit. Another profit-sharing-based micro-equity product is musharakah. According to Arshad and Ismail (2010), musharakah represents a partnership contract between two parties that both contribute funds to finance an identified project, and the profit or loss is then shared between the parties. Musharakah is also a product that might be suitable for alleviating poverty among low-income earners and small business owners if properly designed by microfinance institutions.

2.2.4 Charitable/Social Finance Products

Ahmed (2007) asserts that sadaqah, zakat, and waqf are some of the instruments that Islam has instituted to redistribute income and wealth and improve people’s welfare in society. Zakat is a mechanism for redistributing income and wealth by collecting from the rich and distributing to the poor within the society to reduce inequality, foster socio-economic justice, and increase economic growth (Bilo & Machado, 2020; Manurung, 2013). Zakat and sadaqah are economic instruments through which the purchasing power of the needy is enhanced (Widiastuti et al., 2021). waqf is also a social financing instrument entailing the donation of movable or immovable assets by the owner for perpetual socio-economic benefits of the community (Widiastuti et al., 2022). Waqf funds can be made available for the construction of mosques, schools, hospitals and other social amenities and infrastructural developments (Sukmana, 2020). It is an Islamic economic

tool that can respond to the economic needs of the poor and the poorest communities, thereby promoting economic growth (Widiastuti et al., 2022).
Structuring micro-credit, micro-equity, and social finance products under different models of Islamic microfinancing tends to boost financial inclusion and alleviate poverty in society.

2.2.5 Models for Islamic microfinancing

Nabi et al. (2017) noted that Islamic microfinance has some inclusive models to cater for small-scale businesses and the poor depending on the poverty level. The two financing models are charity-based and profit-based models. The charity-based model comprises zakat, sadaqa, and qard al-hasan, which serve the extreme and marginal poor just above the poverty line. According to Obaidullah (2008), the charity-based model that includes zakat, sadaqa and waqf is designed for the extremely poor, while charity based on zakat, waqf and qard al-hasan is meant for the marginal poor who are fairly above the poverty line.
The profit-based microfinancing model, however, consists of qard al-hasan and commercial funds to serve the needs of low-income earners (Nabi et al., 2017). Establishing Islamic microfinance institutions with models similar to these could increase financial inclusion and address the poverty level in society.

2.3 Concept of Poverty

Rothman (2013) defined poverty as the condition of not having sufficient or adequate money or other resources to meet the basic needs of human beings. It is an economic state where an individual or household cannot adequately cater to basic needs such as food, clothing, shelter, and other socio-economic obligations (Okpora, 2010). Poverty is multidimensional in nature, and different definitions could be provided in line with those dimensions. Gweshengwe and Hassan (2020) identified poverty's financial, economic and material dimensions.
According to Banerjee (2016), the financial dimension of poverty has to do with having no income at all or one that falls below a country's minimum wage, coupled with a lack of access to credit from financial institutions. Poverty is defined in the economic dimension when the resources required to have a decent life and good standard of living are not available (SIDA, 2017). Regarding the material dimension of poverty, it clarifies that people's living conditions are characterized by material deprivation, such as having primarily low-quality goods and services (Terraneo, 2017). Poverty is also defined from social, seasonal, and environmental dimensions (Gweshengwe & Hassan, 2020).
Dogarawa (2008) observed that despite having a large deposit of natural gas and crude oil, Nigeria is still among the world's 20 poorest nations, with many living in extreme poverty. This could be explained by a lack of access to funding to meet the basic necessities of life (Onakoyo & Onakoya, 2013). Despite efforts to lower the nation's poverty rate over the years, the situation remained mostly unchanged. For instance, the NBS data from 202 states that 40.10% of Nigerians are still living in poverty.

2.4 Islamic microfinance and Poverty Alleviation

Islamic microfinance has enormous potential to reduce poverty since its Shariah-compliant products can be utilized as a financial inclusion strategy to reach the underprivileged who cannot access credit, particularly in rural areas. According to Haneef et al. (2015), Islamic microfinance institutions do not require collateral, so they have greater potential to help poor people through services like Qard hasan (interest-free loans) and profit-loss sharing plans based on contracts like mudharabah. Islamic microfinance has a comparative advantage over conventional finance, according to Siddiqi (2002). This is because Shariah-compliant products ensure a close link between Islamic finance and real economic activities, which adds value to financial activities. More jobs will be created, which will majorly influence unemployment and a long-term impact on economic growth and development (Onakoya & Onakoya,2013). Also, Asyraf (2010) sees Islamic microfinance as an alternative tool for addressing the poverty level among poor Muslims since conventional microfinance schemes have failed to achieve the same due to challenges of religious restriction and interest cost of credit. Alaro and Alalubosa (2019)

assert that, with the instrumentality of Islamic microfinance, poverty could finally be eradicated in Nigeria. Similarly, Dhaoui (2015) states that Islamic microfinance, a Shari'ah-compliant manner of providing finance to the marginally poor for their business, is one of the poverty alleviation schemes used to empower the poor and boost their productivity.
However, Mohamed and Fauziyyah (2020) opine that determining whether Islamic microfinance could effectively reduce poverty or improve people's living standards requires assessing the scheme's impact on their social and economic well-being. Although Islamic microfinance has yet to be formally adopted in Nigeria, its potential for alleviating poverty among the poor and small business owners could be evaluated (Onakoya & Onakoya, 2013). It is therefore necessary to assess Islamic microfinance as a tool for poverty alleviation in Nigeria.

2.5 Theory of Vicious Cycle of Poverty

The vicious cycle of poverty theory was propounded by Nurkse (1953) as a circular constellation of forces that act and react on one another in a manner that keeps the poor in the shackles of poverty (Abdullatif et al., 2017). Poverty has resulted from three major causes: unequal resource ownership, differences in the quality of human resources, and lack of access to capital (Kuncoro, 2010). Unequal ownership of resources may lead to unequal income distribution, and unequal quality of human resources can cause low productivity. Low investment, low productivity, low level of savings and low income are attributable to a lack of access to capital (Rohima et al., 2013). Based on these three causes of poverty, Nurkse (1953) hinged the vicious cycle of poverty theory (Rodlyah, 2023).
According to the vicious cycle theory, a poor person is likely to stay that way unless his income level rises considerably enough to release him from the cycle of poverty (Ajakaiye & Adeyeye, 2001). The theory is based on the notion that while those in the lower income bracket cannot afford to save or invest and so cannot escape the cycle of poverty, those in the higher income bracket can do so and maintain their current status (Rohima, Manzilati, & Ashar, 2013). Abdullatif, Omar and Udin (2017) observed that for developing countries like Nigeria, the vicious cycle of poverty seems multidimensional in that low-level income tends to result in a low level of education, leading to low technical skills and resulting in low income. The proponents of the theory believe that unless governments undertake massive investment programmes to end the vicious cycle of poverty, underdeveloped countries will never be able to escape the cycle of poverty (Abdullatif et al., 2017).
Relating the theory to the study, Islamic microfinance provides a platform through which poor and low-income earners can access capital to improve their socio-economic well-being and break the vicious cycle of poverty. The government can also use the scheme of Islamic microfinance to make investment programmes targeting low-income and poor people to alleviate poverty, as opined by the proponents of the vicious cycle of poverty theory.

2.6 Empirical Review

Empirical studies on Islamic microfinance and its impact on poverty alleviation still need to be completed. Some of the studies were reviewed, and a literature gap was created. Akhter, Akhtar and Jaffri (2009) analysed the service performance of Islamic microfinance in Indonesia. The study found that the institutions serve those living below the poverty line and suggested that interest-free loans be used to fight against poverty in the country. Similarly, Rahman (2010) investigated the impact of Islamic microfinance on rural poverty alleviation in Bangladesh. The study selected 1020 respondents, and the results showed that household income, crop and livestock productivity, and employment improved with the adoption of shariah-compliant microfinance. It was then concluded that Islamic microfinance programmes help alleviate poverty in Bangladesh. Also, Mohamed and Fauziyyah (2020) systematically reviewed the literature. They concluded that Islāmic microfinance would play a significant role in achieving Sustainable Development Goals (SDGs), especially in poverty alleviation, through adopting shariah-compliant innovative products and instruments. Quraisy, Abdul Razak and Alhabshi (2017) found that Islamic finance helps reduce poverty. However, Asyraf (2010) revealed that microfinance has not successfully reduced poverty in Bangladesh. Khaled (2011) revealed that Islamic Microfinance is having difficulties with limited funds or raising external finance, thereby limiting the effect of the institutions in alleviating poverty. Some other

studies have found a positive impact of Islamic microfinance, especially in improving the livelihood of people and poverty reduction (Adnan & Ajija, 2015; Rokhman, 2014).
In Nigeria, some research works pointed to the potential of Islamic microfinance as a poverty alleviation tool. Onakoya and Onakoya (2013) examined the fundamentals of Islamic finance and envisioned its workings to identify the connection between sustainable development and actual economies. The study used a survey design with a scope limited to Ogun State, Nigeria. The study revealed that religious differences do not hamper the adoption of Islamic microfinance. They also found that Islamic microfinance will help reduce poverty in Nigeria when combined with the appropriate monetary and fiscal policy framework. Alaro and Alalubosa (2019) assessed the implementation of Islamic microfinance in Nigeria using analytical and qualitative analysis methods. The study assessed four Sharīʼah implementation tools: musharakah, mudharabah, zakat and waqf. It was found that Sharīʼah tools are viable and sustainable microfinance options that guarantee the financial inclusion of a large percentage of Nigeria's poor population. Ibrahim and Murtala (2018) employed chi-square and independent sample t-tests for their studies, and it was revealed that Islamic microfinance has the potential to alleviate poverty in the Bauchi state of Nigeria. However, Salaudeen and Zakariyah (2022) examined the obstacles impeding Islamic microfinance's contribution towards financial inclusion in Nigeria. The semi-structured interview was used for data collection. Results of data analysis showed that regulatory obstacles, acceptability, misconceptions, and awareness are the major impediments to Islamic microfinance in Nigeria.
Previous studies (such as Adnan & Ajija, 2015; Ibrahim & Murtala, 2018; and Alaro & Alalubosa, 2019) concentrated on microcredit and micro-equity financing, such as Mudarabah, Musharakah, Murabahah, Ijarah, and Qard Hasan, while excluding the social financing model of zakah, sadaqah, and waqf. This study considered all three models of microfinancing for addressing poverty in Kwara State, Nigeria.

3. Methodology

This study made use of the survey research design. The study population includes small business owners and petty traders in Kwara State. Non-probability, purposive sampling was adopted to select traders and small business owners from the weekly-market setting of selected towns/villages in the three senatorial districts of Kwara State. Five (5) markets were selected from the three (3) senatorial districts, totalling 15. The markets include Ilesha Baruba, Kiama, Gbugbu, Lafiagi, and Patigi markets from Kwara North. In Kwara South, Ganmo, Owode-Offa, Ajase, Oro and Iyana Share markets were selected. The sample also included Bode Saadu, Aboto, Ipata, Oja-Oba and Alapa markets from Kwara Central Senatorial District.
Data were collected with a structured questionnaire to obtain relevant data from the poor rural area residents. 100 copies of the questionnaire were administered to respondents in the 15 markets selected for the study. The questionnaire was structured in such a way that the respondents were able to provide information about sources of financing for their businesses. The information was then used to classify the finances under different microfinancing models as long as they were Shariah-compliant. The data were analyzed with descriptive statistics and inferential statistics. The descriptive analysis includes the use of Tables. Ordered Logistic Regression was conducted for the main data analysis.

4. Results and Discussion

4.1 Demographic Characteristics of Respondents

Table 1 shows some demographic characteristics of respondents. One thousand five hundred (1500) copies of the questionnaire were administered, out of which one thousand two hundred and seventy-five (1275) copies, representing 91%, were returned and used for the analysis. The remaining 225 copies were wrongly filled out/ unreturned and not used for the study.

Table 1: Questionnaire Retrieval Analysis

Questionnaire	Frequency	Percentage (%)
Returned copies	1275	85.00
Wrongly filed/unreturned copies	225	15.00
Copies administered	1500	100.00

Source: Field Survey (2024).

Confirmatory factor analysis was performed regarding construct validity in terms of convergent validity. Kaiser-Meyer-Olkin (KMO) and Bartlett's tests were performed. The KMO measures sampling adequacy and ranges between 0 and 1.0. The KMO test was used to measure sample adequacy and determine the level of partial correlation between variables. The KMO value ranges from 0 to 1. The KMO value should be as near to 1.0 as possible. A KMO value from 0.8 to 1 indicates the adequacy of the sample selected for the study. This means that a KMO of at least 0.80 indicates that the sample is suitable for the analysis and generalisation of study findings. According to Table 2, the KMO value of each construct is 0.804, indicating that the selected sample is adequate and suitable for analysis and generalization.
The hypothesis underlying Barlett's test of sphericity is that the correlation matrix for the variables is an identity matrix. An identity matrix means that all the variables are uncorrelated. The hypothesis should be rejected if the p-value is less than a 5% significance level, and the conclusion will be that the correlation matrix is not an identity matrix. Rejection of such a null hypothesis means the variables are good for factor analysis. The results of Barlett's test of sphericity, as displayed in Table 2, showed that the p-value is 0.001, which is less than a 0.05 level of significance. This implies that the variables are ideal for factor analysis and that all measurement items of each sample are significant at level 0.05 based on Barlett's test of sphericity.

Table 2: Validity Tests

Variables	KMO	Bartlett's Test of Sphericity		
		Chi-square	Df	P-value
Operational Questions	.804	964.023	285	0.001

Source: Field Survey (2024)

Finally, the reliability analysis results in Table 3 indicate that the instrument is stable and consistent in measuring the impact of Islamic microfinance on poverty alleviation. It can be seen that the Cronbach's alpha test of factors (qard al hasan, murbaha, mudharaba, musharaka, zakat and sadaqa) influencing income level display satisfactory levels of reliability with Cronbach's alpha values higher than the minimum threshold (Cronbach's alpha > .70).

Table 3: Reliability Statistics

Variables	Cronbach's Alpha	No. of Items
Income level	0.89	2
Productivity level	0.78	2
qard al hasan	0.91	2
Murbaha	0.75	2
Mudharaba	0.84	2
Musharaka	0.77	2
Zakat	0.76	2
Sadaqa	0.82	2

Source: Field Survey (2024)

4.2 Regression results

Table 4 shows the ordered logit regression estimates for the factors influencing income level to measure poverty alleviation in Kwara State, Nigeria. Column 1 and Column 2 contain the ordered logistic regression and its marginal effect, respectively. The coefficient estimates of the regressions were used to examine the nature of the relationship and significance of the independent variables. In contrast, the marginal effect was used to evaluate the extent (magnitude or size) of the impact of the independent variables on the dependent variable. In the model, income level was the dependent variable while qard al hasan, murbaha, mudharaba, musharaka, zakat and sadaqa were the independent variables influencing income level of low-income earners and small business owners in Kwara State in Nigeria.

The result of the ordered logit regression in Columns 1 and 2 revealed that Islamic microfinance variables (qard al hasan, murbaha, mudharaba, and musharaka) are positively related to the income level of the selected low-income earners and small business owners in Kwara State, Nigeria. From Table 4, qard al hasan has a coefficient of 0.91 and a standard error of 0.39, indicating that an increase in the supply of qard al hasan will increase income level. The relationship between Qard al Hasan microcredit and income level was found to be statistically significant, as can be derived from the figures shown in Table 4 with standard error less than the value of the coefficient of Qard al Hasan. A similar result is reported for Murabaha microcredit financing of Islamic microfinance. The coefficient of Murabaha is 0.72, with a standard error of 0.20. Half of 0.72 is still greater than 0.20, implying the relationship is statistically significant. Similarly, the relationship between mudharaba and musharaka microequity financing and income level was also positive. Any increase in either micro-equity financing will increase the income level of low-income earners and small business owners. The relationships were statistically significant at 5% (musharaka) and 10% (mudharaba) levels of significance. The significance of each variable is shown in Table 4 by standard errors, which are less than half of the coefficient of the variables. The results imply that both micro-credit and micro-equity products of Islamic microfinance can boost the income level of low-income earners and small business owners and consequently reduce poverty among the poor people of Kwara State, Nigeria.

Conversely, the two charity products (zakat and sadaqa) had positive but insignificant effects on income level. The relationship between each of the two variables is indicated in Table 4 by the coefficients of 0.56 and 0.29, whose half is less than the standard errors of 0.49 and 0.18, respectively.

The coefficients of the cut parameters were used to examine the essence of the response categories (strongly agreed, agreed, undecided, disagreed and strongly disagreed). If the cut values were statistically significant, the categories were maintained in the interpretation; otherwise, insignificant categories were to be collapsed into a category. In Table 4 and 5,

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all the constant cut values except cut 3 were statistically insignificant; therefore, we can collapse all other categories apart from categories 3 and 4. This implies that the undecided, disagreed and strongly disagreed respondents did not distinguish responses, but strongly agreed and agreed responses were clearly defined.
The log-likelihood chi-square statistics were reported to examine the model's goodness of fit. The fitness statistics of the ordered logit are 79.52, with a P-value of 0.0000. Since the probability values of the fitness statistics are less than 5% significant, the model is a good fit. So, the model's result is viable for tenable conclusions and recommendations.

Table 4: Estimates of Ordered logit regression and the marginal effect

	Dependent variable is Income level	
INDEPENDENT VARIABLES	coefficients of ordered logit (1)	Marginal effect after ordered logit (2)
Qard al hasan	0.91**	1.54**
	(0.39)	(0.17)
Murbaha	0.72***	0.10***
	(0.20)	(0.03)
Mudharaba	0.51*	0.33*
	(0.23)	(0.14)
Musharaka	0.17**	0.48**
	(0.02)	(0.11)
Zakat	0.56	0.28
	(0.49)	(0.17)
Sadaqa	0.29	0.13
	(0.18)	(0.09)
Constant cut1	-0.0041	-0.0053
	(0.0019)	(0.0044)
Constant cut2	2.1298	
	(1.6210)	
Constant cut3	7.5533***	
	(2.6655)	
Observations	1275	1275
Fitness statistics	79.52	
Probability of fitness statistics	0.0000	

Source: Author's Computation (2024).
Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1 denotes 1%, 5%, and 10% significance level respectively.

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Table 5: Estimates of Ordered logit regression and the marginal effect

	Dependent variable productivity level	
INDEPENDENT VARIABLES	coefficients of ordered logit (1)	Marginal effect after ordered logit (2)
Qard al hasan	0.38**	0.47**
	(0.16)	(0.13)
Murbaha	0.63***	0.27***
	(0.22)	(0.11)
Mudharaba	0.15**	0.072**
	(0.04)	(0.01)
Musharaka	0.59***	0.88***
	(0.12)	(0.31)
Zakat	0.45***	0.74***
	(0.19)	(0.29)
Sadaqa	1.35***	0.85***
	(0.43)	(0.33)
Constant cut1	-10.394***	3.110***
	(3.2491)	(0.9526)
Constant cut2	-14.629***	
	(2.9551)	
Constant cut3	-2.1374	
	(0.7441)	
Observations	1275	1275
Fitness statistics	19.46	
Probability of fitness statistics	0.0000	

Source: Author's Computation (2024). Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1 denotes 1%, 5%, and 10% significance level respectively.

5. Discussion

To further investigate how Islamic microfinance affects the poverty level among low-income earners and small business owners in Kwara State, Nigeria, ordered logit regression was also estimated with productivity level as the dependent variable (Table 5).

The result shows that productivity level is positively related to all the variables (qard al hasan, murbaha, mudharaba, musharaka, zakat and sadaqa). That is, the higher the value of these factors, the more likely low-income earners and small business owners are to experience higher productivity. Regarding microcredit products, qard al hasan had a coefficient of 0.38, which means a 1% increase in qard al hasan financing will increase productivity by 0.38%. Similarly, the coefficient of Murbaha financing is 0.63, meaning that increasing Murabaha financing tends to increase productivity. The relationships were significant at 5% and 1% levels of significance, respectively. This implies that a positive and significant relationship exists between microcredit products of Islamic microfinance and the productivity of low-income, small business owners.

Both mudharaba and musharaka are micro-equity products with coefficients of 0.15 and 0.59, respectively. The higher the supply of the two financial products, the higher the productivity level, as the positive coefficients indicate. The effects of the two products were found to be significant at both 1% and 5% significance levels, respectively. Also, zakat and sadaqah (charity products) had a significantly positive relationship with productivity level. This is indicated by the reported coefficients of 0.45 and 1.35 for zakat and sadaqa, respectively. All the coefficients of the variables were statistically significant at 1% and 5%, given that the standard errors of the coefficients were less than half of the values of the coefficients. Hence, all the variables were significant determinants of productivity level. All the cut parameters (cut1, cut2 and cut3) were statistically significant. Thus, all the response categories (strongly agreed, agreed, undecided, disagreed and strongly disagreed) could be maintained.

To examine the model's goodness of fit, the log-likelihood chi-square statistics were reported. The fitness statistics of the ordered logit were 19.46, with a P-value of 0.0000. Since the probability values of the fitness statistics were less than 5% significant, the model had a good fit. So, the model's result is viable for tenable conclusions and recommendations.

6. Conclusion

Islamic microfinance has been identified as a tool for bringing underserved poor people into the financial system to reduce poverty. Empirical investigations are, however, scanty in this regard, calling for a more robust analysis. This will inform implementable policy recommendations. The study, therefore, investigated the influence of the Islamic microfinance system on poverty alleviation in Kwara State, Nigeria. Specifically, the study examined the effect of microcredit, micro-equity, and charity financing on the income and productivity levels of low-income and small business owners in Kwara State. It was found that microcredit, micro-equity, and charity products of Islamic microfinance are positively related to income levels. The variables also significantly affected poverty alleviation in Kwara State, Nigeria. Based on the findings, the study concluded that micro-credit, micro-equity and charity (social finance) products significantly influenced poverty alleviation in Kwara State, Nigeria.

The study, therefore, recommended an adequate supply of shariah-compliant micro-credit, micro-equity and charity financial resources such as qard al hasan, murbaha, mudharaba, musharaka, zakat and sadaqa. This will boost the productivity and income levels of low-income earners and small business owners in the State. It was also recommended that the Central Bank of Nigeria (CBN) provide an enabling environment for formal non-interest microfinance to promote financial inclusion and reduce poverty in the country. Finally, the study recommended further research that will increase the sample size and geographical coverage for higher generalizability of findings.

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