

Relevance of Islamic Financial Instruments in Financing Micro and Small Enterprises in Gombe State, Nigeria

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Abstract

This paper aimed to investigate the role of Islamic financial instruments in providing financial support to micro and small enterprises in Nigeria at large and Gombe state in particular. Despite the opportunities presented by the micro and small enterprise sector for economic growth and investment as well as job opportunities, the sector is largely underdeveloped due to lack of direct access to capital and poor managerial experience by many entrepreneurs. This research paper uses a unique combination of qualitative and quantitative research methods to understand the existing financing structures, challenges and identify the potential of Islamic financial instruments as a source of capital for micro and small enterprises in Gombe state Nigeria. The research adopts a series of semi-structured interviews, document analysis, and a survey of various micro and small enterprises within Kashere town and Gombe metropolis for sampling. The findings of the research suggest that the majority of micro and small enterprises are unaware of or having no access to Islamic financial instruments for funding businesses and there is need for better education and awareness regarding these instruments. Additionally, the research paper concludes with recommendations for policymakers, institutions and practitioners on how to increase the use of Islamic financial instruments in Gombe state Nigeria and proper awareness to promote micro and small enterprises for economic growth and development within the study area.

Keywords: *Islamic Financial Instruments, Micro-Enterprises, Nigeria*

Introduction

According to estimates from the World Bank, the majority of MSEs in emerging markets do not have access to credit, with the gap varying by region and being greatest in Africa and Asia, where the majority of these MSEs are concentrated in rural areas. According to Tarfasa, et al. (2016), sample data is indicating that the expansion of micro and small-scale companies, or MSEs, is a crucial component of the sustainable development of emerging countries. The industrial policy, MSEs development strategy, as well as growth and transformation plans that aim to lower poverty and accelerate progress, are just a few of the issues that need to be given concern in nowadays (Esubalew and Raghurama 2017). Many issues have continuously hampered the functioning and expansion of these businesses; in fact, a sizable number of businesses in various regions of the nation have failed and ceased to exist (Seyoum et al. 2016; Fissiha 2016).

The idea that firms require Nigeria's economy is based on micro and small enterprises (MSEs), which account for the bulk of employment across all social classes and genders.

When both formal and informal MSEs are taken into consideration, they make up the vast majority of businesses in Nigeria's rural areas, accounting for over 95% of all businesses there, over 75% of the country's GDP, and 70% to 80% of all jobs there. Since the global financial crisis began to loom over the world, serious governments and stakeholders have placed promoting access to finance for these MSEs on their global reform agenda (Elasrag, 2016).

No matter how big or what kind of business it is, capital is its lifeblood and a yardstick for its expansion and success. Both small and medium-sized businesses require funds to expand in order to flourish. A multinational also requires capital for a variety of reasons, including liquidity reserves, vertical and horizontal diversity, and many more (Doran, et.al, 2018).

The Asian Development Bank (ADB) believes that there is a global gap of US\$1.9 trillion between the supply and requirement for trade finance alone in relation to issues with access to finance for operating or developing MSEs internationally (Seyoum, 2016). The majority of MSEs that requests finance from institutions are believed to be denied due to their level, size, investment, and global functionality (ITC, 2019).

Capital and experience believed to be a life circle of each reasonable business in rural and urban areas; take example and consider a company that has a N1 million working capital and generates a N100, 000 profits each month. What happens if the company uses its working capital as leverage ten times? Every investment spent on business has a cost, of course. Globally, millions of large corporations employ this tactic to grow and succeed (Oseni, 2011). Unfortunately, a large number of Nigerian businesses lack the funding to sustain their operations, which restricts their ability to seize market opportunities, inhibits their growth, and stymies their transition (Adamu & Ikilima, 2022).

Literature Review

Numerous countries around the world have conducted empirical investigations to determine the elements that influence the development of MSEs. However, research in both developed and developing nations produced conflicting results about the drivers. There are many common characteristics considered growth determinants in the literature on micro business, despite the fact that the impact and size of variables on company growth differ from country to country, area to region, and firm to firm. Initial investment, firm location, sectoral involvement, access to land, business experience, owner gender, motivation, education, market connection, proper record keeping, financial management practices, and availability of funding are a few examples. These variables were collected from studies made by Zhou and de Wit 2009; Loewe et al. 2013; Tefera et al. 2013; Abay et al. 2014; Adem et al. 2014; Feleke 2015; Debelo et al. 2015; Aynadis and Mohammed Nur 2014; Nganda et al. 2014; Leza et al. 2016; Tarfasa et al. 2016; Alemayehu and Gecho 2016; Fissiha 2016; and Seyoum et al. 2016 through systematic review.

As a result, the aforementioned situation indicates at least three justifications for why more research on MSEs is required in Gombe State Nigeria. Firstly, a number of issues, including the fact that some businesses in various communities of the state folded and stopped operating, have consistently threatened the expansion of MSEs. Secondly, even though previous empirical studies of various nations and regions have identified the common factors linked to the growth of micro and small businesses, the impact and importance of each factor differ from one sector to the other, leading to inconsistent results

that cannot be generalized and necessitate further study.

Thirdly, there is a research gap because most studies on growth determinants concentrate on developed regions and skilled businesses while documenting little information about rural communities of the state and the nation, mostly rural areas are house of unskilled micro and small businesses. Yes, as we agree that there is a financial shortage in Nigerian micro businesses at large and Gombe state in particular, and thousands of essays have been written on this issue but not much concern on the study area. According to Islamic viewpoints, we cannot linger on the advantages of debt financing because it has previously been noted as an un-Islamic choice and that it frequently results in rising debt among aspiring business owners. In view of the above, pointing out alternative sources of funding to MSEs become necessary and the Islamic financial instruments have been adopted, tested, trusted and believed contributed toward achieving the desired goal in the sector across many countries and regions. This paper aims to discuss how so far these financial instruments impacted in the case of funding MSEs in Gombe State Nigeria and how to improve the idea for more development of MSEs not only in Gombe State Nigeria but in African continent and the entire world.

Research Method

The sustainability and development of MSEs are dependent on finance plans, which are an essential part of continuously helping MSEs' development because it is a long-term process that necessitates access to financial stability. This study identifies the potential of Islamic financial instruments as a source of funding for micro and small enterprises by combining qualitative and quantitative research approaches in a novel way to comprehend the current financing structures. A survey of most practicable micro and small businesses is one of the research's efforts, along with a number of semi-structured interviews and document analysis. The four most common practiced MSEs in the Gombe State rural areas were chosen at random for the study's sample. Theme analysis, interviewing, and documentation were approaches used in the data collection and analysis process. Semi-structured interviews with pertinent parties served as the main method of data collection in this study due to their validity and usefulness in exploring participants' experiences and viewpoints.

Result and Discussion

Concept of Micro and Small Enterprises

Depending on a country's stage of development, policy objectives, and administration, micro and small enterprises can be described in a variety of ways (World Bank 1978).

- Any profitable enterprise founded and run by an entrepreneur, either alone or in a group, with the intention of making a profit is considered a micro and small enterprise (Adelaja, 2007).
- Micro-enterprises (MSEs) are a kind of companies or businesses that operates with a small number of staff and maintains as well as creates reasonable revenue (Jaar & Maham, 2018).
- Micro and small enterprises (MSEs) are business entities run by the owner or with 1–50 employees at most (Adamu & Ikilima, 2022).
- Although there isn't a single definition for MSEs, the key methods for differentiating

the three types of businesses (micro, small and medium) are size, sales turnover, capital investment, and independence (Adamu, et al., 2023).

- Therefore, in Nigeria, businesses with 1–5 coworkers collectively are referred to as micro-enterprises while the ones with 6-50 staff are considered small enterprises.

Operations of Micro and Small Enterprises in Gombe State, Nigeria

Micro and small enterprises (MSEs) unquestionably contribute significantly to the economic growth of several people and communities. They served as a significant source of innovative ideas, entrepreneurial skills, and employment in the global business sector. MSEs account for more than 90.6% of general enterprises and more than 83% of employment in Nigeria's rural communities, making them the most significant contributors to job creation, poverty alleviation, and global economic development (CBN, 2006). Old and new MSEs that employed a significant portion of the population in a variety of roles and specialties were widely used in Gombe state communities. Additionally, it was known that these businesses manufactured a variety of goods for export to neighboring communities. Over 36,994,578 micro-enterprises, or roughly 99.8% of all existing businesses in Nigeria, are micro-enterprises, according to the Ministry of Industry, Trade, and Investment, and they support more than 84 percent of all jobs there. These micro and small enterprises today provide food and shelter to the majority of families in rural and semi-urban areas with what they need to survive (NASME, 2003).

The creation of these MSEs is a useful strategy for reducing poverty in general, and through it the community's social stability has been preserved. By whopping of 80% of young people in rural communities, regardless of their gender, family background or location who have been left unemployed, work day and night in these businesses, putting their inherent abilities and good deed-doing skills to use. Additionally, the MSEs promote strong inter-group ties and patronage among various ethnic groups in the research area (Adamu & Ikilima, 2022).

Particularly, many people from nearby nations and nearby geopolitical regions do business with these micro and small enterprises in Gombe State communities as owners, consumers, clients, or wholesalers. They also enlist their children as apprentices to learn the trades from the expert. Examples of these micro and small enterprises in Gombe state Nigeria are as follows (Ejiogu, et.al, 2020).

1. **Firewood and Charcoal Business:** A firewood or charcoal business may be an alternative for you if you're interested in working from home or in making a minimal profit with less startup money. But most of the time, it's difficult to launch a successful firewood and charcoal business. You need access to firewood or charcoal, as was already explained, in order to sell it. These could be obtained by paying a predetermined fee to large corporations or local and commercial tree owners to purchase the logs or trees, the leftover top trees, or the leftover chopped logs and trees. Depending on the customer's requirements, you may need to cut, split, and deliver the firewood or charcoal (Adamu & Iklima, 2022). After a lot of labor, perseverance, and customer-friendly actions, the processed firewood or charcoal was sold for more money than the logs they bought. Due to lack of access to power, high tariff costs, or the danger of gas cylinders, people in most rural areas of Nigeria rely primarily on firewood and charcoal for cooking purposes. The fruits of labor were always profitable. The owners of this business typically

operate out of the front space of their homes, garages, or house premises. They may also rent out commercial space (NASME, 2023).

2. **Food Stuff Business:** This is the process of selling items or raw food ingredients for everyday use, particularly for the general public as family consumers or commercial food vendors. It is among the oldest business models in Gombe State Nigeria which is still viable at all hours of the day and night. In Gombe State Nigeria, you may do it and increase your profits everywhere you go and it is in various forms. For instance, rice, beans, millet, groundnuts, soya beans, garri, semo, wheat, noodles, yams, yam flour, cassava, cassava flour (Alubo), potatoes, eggs, and soup components like salt, magi cubes, regular cooking oil, pepper, tomato, ginger, etc are among the raw food materials that are always available in in-house marketer and in mini shops nearby community road. Selling food may be a very lucrative business for those who know how to manage their enterprises. It doesn't matter where you are or what your surroundings are like; you can gradually grow a modest quantity of cash into a large one over time. We all need food to improve our daily lives, so it is a promising source of daily income. However, you must have prior information, experience, and a complete understanding of every business before beginning it to avoid going the incorrect route and risking the failure of the company. As it is customary in many communities across Gombe State Nigeria, you can manage to conduct this type of business without a shop by starting it at your home or a nearby road where people are passing. However, factors such as your geographic location, the types of goods you sell, and how trustworthy and customer-friendly you are might affect how quickly your business grows in general (NASME, 2023).
3. **Fruits and Vegetables Business:** In Gombe State Nigeria, the fruit and vegetable industry is regarded as a one- to two-day commodity industry because these products quickly spoil if not consumed or require preservation in electrical equipment. Because about 95% of Nigerians consume fresh and dry fruits and vegetables, they are consistently advised to do so by health professionals for human life, and most of the time they are cheapest in the area where they are available, this type of business would be among the few most profitable ones in Nigeria if not for its early spoilage. Oranges, bananas, mangoes, plantains, pineapples, pawpaw, cucumbers, coconuts, watermelons, cabbage, lettuce, green leaves, and other fruits and vegetables are among the few that can always be found in Nigerian marketplaces (NASME, 2023).
4. **Barbering and Saloon Business:** Barbering and saloon businesses are profitable in Nigeria since they employ people. As a barber, you may operate your business using your knowledge and resources and make more money every day. Due to its widespread demand across both genders, the hair salon industry is a profitable and universal one. Both rural areas and metropolitan areas can engage in this daily and ongoing commerce. In Nigeria, there are two different types of it: the traditional mode and the contemporary method. Both men and women depend on these kinds of businesses in various communities.

Personal care services, particularly hair care services, are provided by barbering and hairdressing businesses. Customers can choose from a variety of treatments, such as haircuts, hair styling, beard trims, hair coloring, face and head massages, etc. The market

for specialist hair care stores, such as beauty salons, barbershops, and hairdressing salons, to serve various sorts of customers is steadily being filled as a result of the expanding number of service types. Additionally, labor in this sector is specialized under many job titles, including barber, hairdresser, stylist, hair colorist, and hair designer (NASME, 2023).

Challenges of Micro and Small Enterprises in Nigeria

One of the biggest problems MSEs in Nigerian communities confront is a lack of finance. The MSEs must also contend with administrative and marketing obstacles, a lack of an integrated accounting system, skilled labor scarcity, institutional restrictions, and governmental regulations (Ejiogu, et.al, 2019). The main obstacles and patterns that prevent MSEs from obtaining grants at conventional banks in Nigeria are the problem of high interest rates and a lack of sufficient collateral. These banks typically prefer to finance and work with large businesses due to the low level of risk and the ability of these businesses to provide the necessary guarantees and collateral (World Bank, 2020).

Every small business owner naturally has high expectations for their venture, but every year, businesses fail. Although failure is not the only cause of an enterprise's demise, many do each year (Umar et. al, 2021). There are numerous factors, including incompetence, neglect, and problem with price control, location, and behavior.

Nigerian administrations have made repeated unsuccessful attempts to revive the country's abandoned micro business traditions by investing billions of naira to encourage microenterprise owners to lower the high rate of unemployment and crime, especially in rural areas. Numerous debates have taken place, countless situations and difficulties have been brought up, and experts have emphasized the need to solve the problems, but nothing concrete has been accomplished (Alozie, et.al, 2020).

Corruption, injustice, poor representation, weak business plans, a lack of entrepreneurial qualities, poor management by owners, a lack of funding, the absence of supporting institutions, poor location, a lack of proper auditing, management incompetence, poor financial control, a lack of experience, the inability to develop a strategic plan, the inability to transition from a business model to an entrepreneurial one, and poor planning are a few of the major obstacles (Babajide, 2012).

Functions of Islamic Financial Instruments in the Nigerian Economic Sector

The importance of micro-enterprises (MSEs) in contributing to job creation and output growth is now widely recognized in both developed and developing countries, and the interest of any process for the expansion of these enterprises from micro to small and medium size is becoming point of concern from government, economist and stakeholders not only in Nigeria but at global pace (Adamu, 2009).

We funded not less than 100 micro and small enterprises across 14 rural communities through our endowment program sponsored by one our stakeholders and this is one of his major priorities in human development programs.

A strong financial system that supports the growth and strengthening of businesses is necessary for a developing economy. Financial alternatives are crucial for operations like purchasing and selling, as well as for guaranteeing a smooth transfer of funds from savers to investors and expanding the pool of investment prospects for microenterprises

(Adamu & Ikilima, 2022). Certain aspects of Islamic finance have the potential to help economic growth and development in Nigeria, as well as the funding of MSEs.

Existing research indicates that the Islamic financial system offers more potential for the creation and development of micro-enterprises since Muslim communities are encouraged to work hard to earn legal income and to spend that income in accordance with their religious beliefs. It is essential to identify ways to unlock capital sources and improve the financial access of MSEs in order for them to thrive, provide the necessary jobs, and offer solutions for human development (Yousri, 1995).

Islamic finance instruments are a viable answer for MSEs in Nigeria; they assist in meeting the requirements of formal financing and can prove to be especially efficient at providing unhindered access to credit (Ibraheem et.al, 2022). Islamic finance always emphasizes partnership-style financing, Qard al-Hasan (interest-free loan) financing, financing through Zakat (alms giving), Waqf (endowment), Sadaqah (voluntary charity), and Hibah (gift), all of which could be helpful in enhancing the poor's access to finance and assisting micro business owners throughout the communities to improve their business practices (Igharo et.al, 2020).

Particularly in the current environment of Nigeria's conventional finance institutions, where un-Islamic practices predominate and there are few Islamic windows, these Islamic financial instruments might assist microenterprise owners in meeting the needs of infusing and supporting their MSEs with money (Zauro, et.al, 2020). Supporting life companies, which are a dependable source of the human economy and social development, is one of the goals of Islamic financial instruments (Cernat, et.al, 2014). These Islamic financial instruments are used in Nigeria today from all points of the nation and among all ethnic groups to support human life, particularly by assisting young entrepreneurs in finding lucrative employment opportunities, generating income, and ultimately reducing poverty.

Success of Islamic Financial Instruments in Financing Micro and Small Enterprises in Gombe State Nigeria

Nigeria's economy in general and Gombe state in particular is being significantly boosted by micro and small businesses, particularly during these difficult times. They are seen as the center of income generation (Adamu & Ikilima, 2022), a potent means of eradicating unemployment and poverty, and a source of fresh ideas (Adamu, et al., 2023). Since MSEs demand less capital to produce more labor per worker than other sectors do, their operation and development potential are constantly correlated. Microenterprise financing is regarded as a "new paradigm" for promoting development and eliminating extreme poverty. Though the value of growing small businesses has long been recognized, the original idea of financing microbusiness owners through group finance that is focused on alleviating poverty is a more recent development (Hulme & Mosley, 1996).

I suffered a lot after the death of my husband, I struggled for the survival of my young children, but from the day I started this business of selling firewood and charcoal with one of my children through after receiving a donation from one of the charity foundation who visited us.

In order to maintain social stability and serve as a significant tool for wealth redistribution in Muslim countries, the establishment of alternative financial mechanisms,

such as those from Islamic viewpoints, is required. Through this, several needy and underprivileged individuals, as well as owners of micro businesses, receive the appropriate assistance (Christine, 2015).

You see what am selling, firewood business is a good business for me as a rural citizen, I feed my family with it, and solve many of my problems with it, and therefore, I satisfied with my business and always urge my children to maintain it even after my death. The major secret of this wonderful business is trust, perseverance, and dedication. For the first time a citizen of this community benefitted with this financial support from this foundation of Zakat and endowment, I applied for loan without interest (Qardh al-Hassan) for 10, 000 naira (about 11 dollars) to start my business, and I thank almighty Allah as of now I repay my loan and now have full control of my business and capital, my existing business capital now estimated at 15,000 naira (about 17 dollars), all this within period of 6 months.

The goals of this are to reduce significant financial discrepancies among citizens, support new businesses in Muslim countries, promote brotherhood, and prevent prejudice and animosity. Only Islamic financial instruments are directly based on moral principles, including those of religion and specific investing principles that are appropriate for all legal business dealings (Abdelhamid & El-Mahdi, 2003). The majority of the funds raised through Islamic financial instruments are used for MSEs support as well as direct transfers, other profitable investments, and financing of numerous Islamic development projects in areas like education, health care, clean water, and social welfare (Chapra, 2011).

As a chairman of association of local or street food vendors here in this filling station, the owner of this company through his program of supporting vulnerable and micro-business owners, about 200,000 naira was shared among 20 of our members, each one received 10, 000 naira as Sadaqah for financing his enterprises for developing his business. This is the first time I witness this town.

Nigerian populations are currently suffering from the effects of the Naira restructuring measures, the elimination of fuel subsidies, and excessive food prices. More businesses, particularly micro-enterprises, were impacted, and many individuals are still jobless and without hope of supporting their families. With the help of Islamic scholars and economic experts in Nigeria, many micro business owners, people from disadvantaged backgrounds, people with disabilities, and all other needy groups received palliative care, assistance, donations, and other means of earning through Islamic finance instruments that have so far produced fruitful results and improved the situation of several micro businesses throughout rural communities in Nigeria.

Conclusion

Without a doubt, MSMEs were home to the most commercial companies on the planet. They contributed significantly to the majority of economic activity in developing countries and were key forces behind economic expansion, job creation, the eradication of poverty, and inclusive and sustainable development. According to the interviews conducted, 76% of the interviewees confirmed that Islamic financial instruments are helping owners of MSEs in the research region. Many children, relatives, orphans, and women are employed to

manage various tasks in the industry as a result of the MSEs' expansion. Governments, religious institutions, and other relevant organizations and agencies should intensify their efforts to support MSEs activities in Nigeria for more employment and chances for gender empowerment, as well as to provide access to internal and external financial resources and market opportunities for better living conditions for its citizens. As a result, this can be achieved through the adoption of Islamic financial instruments like Waqf, Zakat, Qardh al-Hasan, Sadaqah, Hibah, and partnership in the country.

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