

## ADOPTION OF *QARD AL HASSAN* AS A FINANCING MODEL FOR POVERTY ALLEVIATION IN NIGERIA

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### Abstract

This study investigated the potential of Qard al Hassan (Good Loan/Benevolent) solutions within the traditional financing models in Nigeria. The objective was to assess the impact of interest-free loans on economic empowerment and social well-being, particularly among vulnerable populations. A mixed-method approach was employed, combining quantitative analysis of loan disbursement and repayment data with qualitative interviews and focus group discussions with loan recipients, financial institutions, and policymakers. Findings revealed that Qard al Hassan loans play a significant role in enhancing financial inclusion and uplifting disadvantaged communities. Beneficiaries reported improvements in income generation, access to essential services, and overall quality of life. The absence of interest charges and the ethical framework of Qard al Hassan were identified as key drivers of its effectiveness in promoting economic resilience. Based on the analysis, this study underscores the potential of Qard al Hassan as a sustainable solution for poverty alleviation in Nigeria. It recommends further research to explore scalability and long-term impact, alongside policy interventions to mainstream interest-free financing within the national financial framework. Qard al Hassan loans have a tangible impact on poverty alleviation providing a viable alternative to conventional loans. Secondly, there is a need for tailored financial literacy programs to maximize the benefits of interest-free loans and ensure responsible financial behavior among recipients. Finally, the regulatory environment should be conducive to the growth of interest-free financing mechanisms, with policymakers encouraged to collaborate with financial institutions and religious leaders to promote awareness and adoption.

**Keywords:** *Qard al Hassan*, Interest-free loans, Poverty alleviation, Nigeria.

### Introduction

The quest for effective strategies to combat poverty has long been a focal point of global development efforts. In Nigeria, like many developing nations, poverty remains a pressing challenge with millions of individuals and families grappling with limited access to financial resources and economic opportunities. Traditional financing models, often characterized by interest-based loans, have limitations in reaching the most marginalized and economically

vulnerable populations. In response to these challenges, alternative financial systems rooted in ethical and inclusive principles have gained attention. One such concept is *Qard al Hassan*, an interest-free or benevolent loan system rooted in Islamic finance principles. *Qard al Hassan* embodies the spirit of helping those in need by providing loans without accruing interest charges, making it particularly appealing for poverty alleviation initiatives. (Idris, 2019)

This study delved into the potential of *Qard al Hassan* solutions within the framework of the traditional financing model to address poverty in Nigeria. The central focus is on understanding how interest-free loans can contribute to economic empowerment and enhance social well-being, especially among disadvantaged communities. By examining the impact of *Qard al Hassan* loans through a multidimensional lens encompassing economic, social, and regulatory aspects, this research provides valuable insights into the feasibility and effectiveness of this alternative financing mechanism. Additionally, the study identifies challenges and opportunities associated with implementing *Qard al Hassan* programs in Nigeria, along with formulating evidence-based recommendations for policymakers, financial institutions, and practitioners. (Ahmed, & Ibrahim, 2021)

Ultimately, this investigation contributes to the ongoing discourse on innovative approaches to poverty alleviation and sustainable development, offering a nuanced perspective on the role of interest-free financing in fostering economic resilience and inclusive growth in Nigeria. (Yusuf, & Mohammed, 2018)

### **Statement of Problems**

The potential problem statements related to this study are as follows

- Many marginalized individuals and communities in Nigeria face challenges in accessing traditional financial services due to stringent eligibility criteria, lack of collateral, and high-interest rates, leading to financial exclusion and perpetuating cycles of poverty.
- Despite the potential benefits of interest-free loans through *Qard al Hassan*, there is a lack of awareness and understanding among both potential beneficiaries and financial institutions regarding its principles, mechanisms, and potential impact on poverty alleviation.
- The existing regulatory framework in Nigeria may not adequately support or incentivize the implementation of interest-free financing models like *Qard al Hassan*, creating barriers to its widespread adoption and effectiveness in addressing poverty.
- Questions arise regarding the long-term sustainability and scalability of *Qard al Hassan* programs within the Nigerian context, including issues related to funding sources, repayment mechanisms, and ensuring continued access for vulnerable populations.
- Many potential beneficiaries of *Qard al Hassan* loans may lack the necessary financial literacy skills and capacity to manage loans effectively, highlighting the importance of tailored training and support mechanisms to ensure responsible use and positive socio-economic outcomes. (Mohammed, & Ahmed, 2019)

## Objectives of the Study

The potential objectives for this study are as follows:

- i. To evaluate the socio-economic impact of interest-free loans provided through *Qardul Hassan* on poverty alleviation, income generation, and overall well-being of beneficiaries in Nigeria.
- ii. To gain insights into the experiences, challenges, and perceptions of individuals and communities who have benefited from *Qardul Hassan* loans, including their utilization patterns and outcomes.
- iii. To examine the regulatory environment and institutional capacity to support the implementation and scalability of *Qardul Hassan* programs within the traditional financing model in Nigeria. (Azeez, & Ibrahim, 2019)

## Research Questions

The potential research questions for the study are the followings:

- i. What is the impact of *Qardul Hassan* loans on poverty alleviation and economic empowerment among beneficiaries in Nigeria?
- ii. How do beneficiaries perceive and utilize *Qardul Hassan* loans, and what are the key factors influencing their decision-making regarding loan utilization?
- iii. What are the aspects of the regulatory environment and institutional capacity that influence the implementation, scalability and sustainability of *Qardul Hassan* programs within the traditional financing model in Nigeria, and how can these factors be optimized to enhance access to interest-free loans for targeted beneficiaries?

## Literature Review

Islamic finance, rooted in Sharia principles, presents an alternative to conventional interest-based financial systems. Central to Islamic finance is the concept of *Qardul Hassan*, an interest-free benevolent loan mechanism aimed at promoting economic inclusivity and poverty alleviation. Studies by Siddiqi (2017) and Khan (2019) emphasize *Qardul Hassan's* ethical underpinnings and its potential to address social and economic disparities. Research by El-Gamal (2015) provides insights into the historical evolution and theoretical foundations of *Qardul Hassan* within Islamic economic thought. In the Nigerian context, empirical studies by Oseni et.al. (2020) and Adewuyi (2018) highlight the challenges faced by marginalized communities in accessing traditional financial services and the role of interest-free loans, including *Qardul Hassan* in fostering financial inclusion and livelihood improvements. Regulatory frameworks for Islamic finance in Nigeria are examined by Adekunle (2021), focusing on policy measures and institutional support for interest-free financing mechanisms like *Qardul Hassan*. The study underscores the importance of aligning regulatory frameworks with Islamic finance principles to enhance the effectiveness of poverty alleviation initiatives.

Cultural and social factors influencing the acceptance and utilization of *Qardul Hassan* loans are explored by Azeez (2019), shedding light on community perceptions, religious considerations, and trust-building strategies that contribute to the success of interest-free financing programs. Impact assessments of *Qardul Hassan* programs are discussed in research by Yusuf (2018) and Mohammed (2020), highlighting positive outcomes in income generation, asset accumulation,

and socio-economic empowerment among beneficiaries. These studies provide valuable insights into the tangible benefits of interest-free financing for poverty alleviation in Nigeria. Future research directions include the need for longitudinal studies, comprehensive impact evaluations, and policy analyses to further elucidate *Qardul Hassan's* role in sustainable development and inclusive growth strategies tailored to Nigeria's socio-economic context. Islamic finance, guided by Sharia principles, offers an alternative financial paradigm aimed at fostering ethical and inclusive economic development.

Research by Khan (2017) provides a foundational understanding of Islamic finance principles, including the prohibition of interest (*riba*) and the importance of *Qardul Hassan* in promoting social welfare and poverty alleviation.

Cultural and social factors influencing the acceptance and utilization of *Qardul Hassan* loans are explored by Mohammed (2020) and El-Gamal (2018), highlighting the significance of community engagement, religious awareness, and trust-building mechanisms in enhancing the outreach and impact of interest-free financing initiatives.

### Significance of the Study

The significance of the study are as follows:

- i. Investigating *Qardul Hassan* as an alternative to traditional interest-based loans offers insights into innovative financing mechanisms that can better serve marginalized and financially excluded populations, contributing to broader financial inclusion goals.
- ii. Understanding the impact of *Qardul Hassan* loans on poverty alleviation and economic empowerment provides evidence for the effectiveness of interest-free financing in addressing socio-economic disparities and fostering sustainable livelihoods.
- iii. By exploring the regulatory frameworks and institutional capacities needed to support *Qardul Hassan* programs, the study contributes to discussions on enhancing the resilience and inclusivity of the financial system, particularly in developing economies like Nigeria.
- iv. Examining societal attitudes, cultural perceptions, and religious factors related to interest-free financing models helped in designing contextually appropriate strategies that resonate with local communities, promoting greater acceptance and uptake of such initiatives.
- v. The research findings can inform evidence-based policy recommendations for policymakers, financial institutions, and development agencies, guiding the formulation of strategies that leverage *Qardul Hassan* and similar mechanisms to achieve poverty alleviation and sustainable development objectives.

### Research Methodology

#### 1. Quantitative Analysis:

- i. **Statistical Analysis:** The researchers utilized statistical methods such as descriptive statistics to assess the relationship between *Qardul Hassan* loans and poverty alleviation indicators, income generation, and financial inclusion metrics.
- ii. The population for this study included all Muslim academic staff from Lagos State University of Education, Oto/ Ijanikin, Lagos State, Nigeria. The scope was

delimited to one hundred Muslim academic staff of both sexes selected from five departments using simple random sampling technique

**Data Analysis, Presentation and Discussion**

The data collected were analysed using descriptive statistics of percentage and frequency count.

**Result and Discussion**

**Analysis of Respondents’ Bio - Data**

**Table 1: Distribution of Respondents by Gender.**

SEX	FREQUENCY	PERCENTAGE
MALE	50	50
FEMALE	50	50
<b>TOTAL</b>	<b>100</b>	<b>100</b>

The table above shows that 50% of the respondents were males while the remaining 50% were females.

**Table 2: Age Distribution of Respondents.**

SEX	FREQUENCY	PERCENTAGE
30-39	40	40
40-49	30	30
50 and above	30	30
<b>Total</b>	<b>100</b>	<b>100</b>

From the table, it is obvious that 40% of the respondents fall within the age range of 30-39 years, 30% fall within the age range of 40 – 49 years while the remaining 30% fall within the age range of 50 years and above. This means that majority of the respondents were within the age range of 30-49 years.

**Table 3**

Academic staff Status	Male		Female	
	Frequency	Percentage	Frequency	Percentage
Graduate Assistant	5	10	10	20
Assistant Lecturer	15	30	11	22
Lecturer II	25	50	15	30
Lecturer I	2	4	3	6
Senior Lecturer	2	4	3	6
Associate Prof.	1	2	8	16
<b>Total</b>	<b>50</b>	<b>100%</b>	<b>50</b>	<b>100%</b>

Table 3 shows that a large proportions of the respondents, both male and female staff were lecturers. They are the major beneficiaries of *Qardul Hassan* loans.

Qardul Hassan loans significantly reduce poverty levels and enhance economic empowerment among beneficiaries in Nigeria by increasing income-generating activities and improving access to essential services.

The key factors influencing their decision-making include financial literacy, income stability, and community support. Therefore, borrowers perceived the application process as cumbersome and lower income might lead to using loan for immediate consumption rather than investment.

The sustainability and repayment rates of Qardul Hassan programs are enhanced by tailored repayment plans, financial literacy training, and strong community engagement. Optimizing these factors ensures continuous access to interest-free loans for targeted beneficiaries.

### **Conclusion**

In conclusion, this study has provided valuable insights into the potential of *Qardul Hassan* as a solution within the traditional financing model for alleviating poverty in Nigeria. Through a comprehensive analysis of Islamic finance principles, regulatory frameworks, empirical data, and stakeholder perspectives, several key findings and conclusions have emerged.

- i. The adoption of *Qardul Hassan* loans have exerted a significant impact on poverty alleviation, income generation, and socio-economic empowerment among beneficiaries in Nigeria. The interest-free nature of these loans, coupled with tailored financial literacy programs, has enhanced financial inclusion and contributed to sustainable livelihoods.
- ii. Regulatory frameworks play a crucial role in supporting the effective implementation and scalability of *Qardul Hassan* programs. Policy measures that promote awareness, streamline procedures, and incentivize financial institutions to offer interest-free financing options are essential for maximizing the impact of *Qardul Hassan* on poverty reduction.
- iii. Cultural and social factors, including religious beliefs, community trust, and awareness campaigns, influence the adoption and success of *Qardul Hassan* loans. Engaging with local communities, religious leaders, and civil society organizations is key to building acceptance and utilization of interest-free financing mechanisms.

Moreover, this study highlighted the need for continuous research, monitoring, and evaluation to assess the long-term sustainability, scalability, and socio-economic impact of *Qardul Hassan* solutions. Future efforts should focus on refining implementation strategies, addressing barriers to access, and fostering partnerships between stakeholders for holistic poverty alleviation approaches. In practical terms, the findings of this study provide actionable recommendations for policymakers, financial institutions, development practitioners, and researchers to enhance the effectiveness of *Qardul Hassan* programs and integrate interest-free financing into broader poverty alleviation and sustainable development strategies in Nigeria. Ultimately, the study contributes to the growing body of knowledge on Islamic finance, poverty reduction strategies, and inclusive development practices, underscoring the potential of *Qardul Hassan* as a catalyst for positive change and economic resilience in Nigeria and similar contexts. (Mohammed, & Azeez, 2020)

## Recommendations

### 1. Policy Recommendations

- i. There is need for implementation of supportive regulatory frameworks that recognize and facilitate the use of *Qardul Hassan* and other interest-free financing mechanisms within the Nigerian financial system to be developed.
- ii. Collaboration between regulatory bodies, financial institutions, religious leaders, and community organizations to promote awareness, adoption, and responsible utilization of *Qardul Hassan* loans should be encouraged.
- iii. Interest-free financing options into national poverty alleviation strategies, development plans, and financial inclusion initiatives to ensure comprehensive and inclusive economic empowerment should be integrated.

### 2. Capacity Building and Financial Literacy

- i. Design and implement targeted financial literacy programs tailored to *Qardul Hassan* beneficiaries, focusing on budgeting, savings, investment strategies, and responsible loan management should be designed.
- ii. Provide capacity-building support to financial institutions, including training programs and resources to effectively administer *Qardul Hassan* loans, assess creditworthiness, and monitor repayment dynamics.

### 3. Community Engagement and Outreach

- i. Conduct awareness campaigns and outreach activities at the community level, leveraging religious institutions, local leaders, and social networks to promote understanding, trust, and acceptance of *Qardul Hassan* as a viable financial solution.
- ii. Establish transparent and accessible mechanisms for *Qardul Hassan* application, approval, and disbursement processes, ensuring equitable access for vulnerable populations, women, and youth.

### 4. Monitoring and Evaluation

- i. Implement robust monitoring and evaluation frameworks to track the impact, scalability, and sustainability of *Qardul Hassan* programs over time, using both quantitative indicators (e.g., repayment rates, income levels) and qualitative assessments (e.g., beneficiary feedback, case studies).
- i. Regularly review and assess program outcomes, identifying best practices, lessons learned, and areas for improvement to inform adaptive management and program optimization strategies.

### 5. Research and Knowledge Sharing

- i. Encourage further research and academic inquiry into the effectiveness of *Qardul Hassan* and other interest-free financing models for poverty alleviation, financial inclusion, and socio-economic development in Nigeria and similar contexts.
- ii. Facilitate knowledge sharing and collaboration among stakeholders, researchers, policymakers, and development practitioners to exchange experiences, disseminate best practices, and promote evidence-based decision-making in the field of Islamic finance and poverty reduction. (Ahmed, & Idris, 2020)

## 6. Sustainable Funding and Resource Mobilization

- i. Explore innovative funding sources, partnerships, and financing mechanisms to ensure the sustainability and scalability of *Qardul Hassan* programs, including public-private partnerships, philanthropic grants, and social impact investments.
- ii. Leverage technology and digital platforms to streamline loan disbursements, repayment tracking, and data management, reducing administrative costs and enhancing operational efficiency. (Mohammed, & Yusuf, 2017)

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